RIETUMU BANK GROUP

Consolidated and Bank Financial Statements
and Auditor's Report
for the year ended 31 December 2003

TABLE OF CONTENTS

MANAGEMENT COMMENTARY

1 Operating and financial review

The year 2003 was very successful and promising from an operational, financial and strategic viewpoint. The Bank's financial performance is significantly better than expected and the Bank grew at a stable pace while maintaining high profitability. The Bank continued to improve its reputation as one of the best managed and stable financial institutions in the Baltic States. This success has been achieved while upholding the objectives of being a Bank for corporate customers with a conservative financial position. This approach allowed an increase of shareholders value without damaging the safety of the Bank and depositors.

2 Operating results

During 2003, the Bank launched various new products and continued to improve customer service. With Latvia joining the European Union in May 2004, our customers will face many new challenges as well as opportunities. During 2003, we actively promoted the Bank to our clients as a partner that can assist our clients in the European Union. This promotion was very successful and we plan to continue this during 2004.

As was the case during 2002, the Bank again focused on Customer Relationship Management. Much effort was put into improving our remote banking services, especially remote banking and internet banking. In our branches we successfully launched a project to improve the quality of service in branches. As a result of this project, we closed one branch, our branches have become more profitable and the branch staff has become more active. The Bank now has 10 branches in Riga and 2 branches outside Riga. The Bank's branches are located in business areas and they focus to offer competitive services to corporate customers.

The Bank increased its presence outside Latvia by opening new representative offices in Prague. In addition to the representative office opened in 2003, the Bank has representative offices in Moscow, Kiev, Minsk, Alma-Ata, Saint Petersburg and Kishinev.

The Bank placed significant focus on improving our credit products and service. We achieved significant success in crediting large Latvian corporate customers while maintaining a conservative lending policy. As part of the expansion of the corporate lending portfolio, the Bank started to lend very conservatively and on a case by case basis to customers that are that have businesses that are located outside Latvia. Our focus has been on Estonian clients and Russian clients. Some small projects have been initiated in Belorussia. Most lending outside Latvia is to existing clients of the Bank. The Bank also secured collateral pledges in all cases.

The program of crediting small to medium sized enterprises that was launched during the second half of 2002 continued to be very successful. The Bank had active mortgage advertising campaigns during the first 6 months of the year. The mortgage program will continue during 2004 and the Bank is planning various mortgage related programs during 2004. With the developments within the credit area during 2003, the Bank has positioned itself to offer a very competitive lending service to its customers, while maintaining the overall objective of conservative growth.

The Bank received a Visa acquiring license during 2003. Visa acquiring allows the Bank to further improve the levels of service to its clients, especially clients that are involved in trade. Profitability of the credit card acquiring business will increase and the Bank will be able to compete more due to the new Visa acquiring license.

The operational results of RB Securities, the Bank's brokerage company, exceeded all expectations. We expect RB Securities to continue its dynamic growth during 2004.

Improving compliance with local and international money laundering regulations as well as improving the Bank's know your customer database has been a key area of focus of senior management for the past two years. The Bank reached all its targets set for 2003 in the area of money laundering and significant improvements have been made compliance reporting as well as monitoring of transactions. The Bank's policies have been restated, organizational changes have been made and new rules and procedures have been implemented. Staff training programs have been held throughout the Bank to improve awareness of suspicious transactions.

3 Financial results

	2003	2002	2001	2000
At year end (Ls'000)				
Total assets	477,024	377,912	313,676	153,101
Loans and advances to customers	160,992	92,033	75,742	35,255
Other interest earning assets	266,395	251,909	203,906	100,723
Due to customers	435,093	343,132	259,017	137,097
Total shareholders' equity	31,216	24,443	18,706	10,723
For the year (Ls'000)				
Net profit before tax	9,952	7,027	6,311	4,473
Net profit after tax	8,317	5,511	6,338	4,448
Operating income	23,814	20,600	17,972	8,746

4 Ratios

	2003	2002	2001	2000
Earnings per share (Ls)				
After tax	0.41	0.272	0.328	0.257
Before tax	0.488	0.346	0.316	0.256
Dividend per share (Ls)	0.095*	0.072	0.05	-
Dividend growth	32%*	44%	100%	-
Capital adequacy				
Basle	11.99%	12.5%	12.1%	19.3%
Financial & Capital Markets Commission	12.42%	13.2%	11.6%	16.2%
Return on equity				
Before tax	31.88%	32.8%	42.9%	52.6%
After tax	26.64%	25.5%	43.1%	52.3%
Return on assets				
Before tax	2.1%	2.1%	2.7%	3.3%
After tax	1.74%	1.7%	2.7%	3.3%
Profit margin (before tax)	41.79%	34.11%	35.1%	51.1%
Number of employees	561	522	496	327

* *proposed*

During 2003, total assets grew to Ls 477 millions from Ls 378 millions in 2002. This represents a growth of 26%. Due to customers increased by 27% from Ls 343 millions in 2002 to Ls 435 millions in 2003. Current accounts and term deposits were Ls 347 millions and Ls 88 millions respectively (2002: Ls 303 millions and Ls 40 millions respectively). The Group net profit before tax was Ls 9,952 thousands (2002: Ls 7,027 thousands) representing an increase of Ls 2,925 thousands. Included in these results are the Bank's brokerage subsidiary, RB Securities Group that has had a record year with after tax profits of Ls 2,356 thousands (2002: Ls 1,086 thousands). Funds under management reached Ls 133,609 thousands (2002: Ls 74,864 thousands). Total shareholders equity increased from Ls 24.4 million in 2002 to Ls 31,22 million in 2003. The Bank issued 205 thousands new shares during 2003. For the financial year ended 2003, the Bank's management proposes to pay a dividend of 23.47% (2002: 26.7% pay out ratio) of Net Profit for the Year or Ls 1,952,000 (2002: Ls 1,471,000). The 2003 dividend represents a dividend growth of 33%. The proposed dividend for the year is calculated after the Bank's management forecasts that the Group can maintain a consolidated capital adequacy ratio of at least 10% while complying with all norms of the Financial and Capital Markets Commission regulations for the financial year following the dividend year. It is the intention of management that shareholders to achieve dividend growth, provided that the Bank complies with all regulatory norms. We are looking forward to Latvia joining the European Union on 1 May 2004 and we foresee many opportunities arising from the European Union in 2004. We are looking forward to 2004 and beyond and we firmly believe that we will continue to offer the best corporate service of any bank in the Baltic States. We owe our success to our customers and business partners and we would like to express our appreciation to our customers and business partners for the trust that they have placed in us.

Leonid Esterkin	Michael J. Bourke
Chairman of the Council	Chairman of the Board of Directors

11 March 2004

As of the date of the signing of the financial statements:

The Council of Rietumu bank

1 January 2003 – 31 December 2003

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98 (16/03/01-16/03/04)
Arkady Syharenko	Deputy Council Chairman	15/04/98 (16/03/01 – 16/03/04)
Valentin Bluger	Member of the Council	15/04/98 (16/03/01 – 16/03/04)

The Board of Directors

1 January 2003 – 31 December 2003

Name	*Position*	*Date of appointment*
Michael Bourke	Chairman of the Board	11/12/98 (26/11/01 – 26/11/04)
Alexander Kalinovsky	First Deputy Chairman of the Board	11/12/98 (26/11/01 – 26/11/04)
Rolf Fuls	Deputy Chairman (Vice-president)	11/12/98 (26/11/01 – 26/11/04)
Natalia Fetisova	Member of the Board (Vice-president)	11/12/98 (26/11/01 –26/11/04)
Yevgeny Shikhman	Member of the Board (Vice-president)	11/12/98 (26/11/01 –26/11/04)
Elena Popova	Member of the Board (Vice-president)	16/11/00 (26/11/01 – 26/11/04)
Dmitry Pyshkin	Member of the Board (Vice-president)	10/05/01 (26/11/01 – 26/11/04)
Roman Bichkovich	Member of the Board (Vice-president)	10/05/01 (26/11/01 –26/11/04)
Inga Shina	Member of the Bord (Vice-president)	21/07/03-26/11/04

There were no changes in the Board of Directors of the Bank during the period beginning 31 December 2003 through to the date of the signing of these financial statements.

The Management of Rietumu Bank (Bank) are responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated financial statements on pages 8 to 46 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2003 and the results of its operations and cash flows for the year ended 31 December 2003 as well as the financial position of the Bank as of 31 December 2002 and the results of its operations and cash flows for the year ended 31 December 2003.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of Rietumu Bank are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Management of the Bank:

Leonid Esterkin	Michael J. Bourke
Chairman of the Council	Chairman of the Board of Directors

11 March 2004

KPMG Latvia SIA

Kr. Valdemara 33
Riga, LV 1010
Latvia

Telephone +371 703 80 00
Telefax +371 703 80 02

kpmg@kpmg.lv
www.kpmg.lv

AUDITORS' REPORT

To the shareholders of the joint stock company Rietumu Banka

We have audited the accompanying unconsolidated balance sheet of A/S Rietumu Bank as of 31 December 2003 and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. We have also audited the accompanying consolidated balance sheet of A/S Rietumu Bank and subsidiaries ("the Group") as of 31 December 2003 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements which have been presented together to report the financial position, results of operations, and changes in cash flows for both the parent company and the consolidated group, as set out on pages 8 to 46, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of A/S Rietumu Bank and the consolidated financial statements of the Group based on our audit. In addition, it is our responsibility to assess whether the accounting information included in the Management Report is consistent with the financial statements.

A/S Rietumu Bank and the Group consolidated financial statements for the year ended 31 December 2002 were audited by the another independent audit firm whose report dated 14 March 2003 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our work with respect to the Management Report was limited to the aforementioned scope, and did not include a review of any information other than drawn from the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the unconsolidated parent company financial statements give a true and fair view of the financial position of A/S Rietumu Bank as of 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2003 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The management report is consistent with the financial statements.

Patrick Querubin
Partner
SIA KPMG Latvia
Licence No. 55
Riga,Latvia
11 March 2004

Inga Lipšāne
Sworn Auditor
Certificate No. 112

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2003

		31 December 2003		31 December 2002	
	Notes	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
ASSETS					
Cash and balances with central banks	4	19,705	19,705	16,223	16,223
Balances due from credit institutions and central banks	5	213,667	213,662	198,204	198,132
Demand deposits		*188,912*	*188,907*	*173,046*	*172,974*
Other deposits		*24,755*	*24,755*	*25,158*	*25,158*
Loans and advances to non-banking customers	6	160,992	134,387	92,033	72,818
Government bonds with fixed income	7, 8	13,174	13,174	11,438	11,438
- trading portfolio		*4,445*	*4,445*	*1,435*	*1,435*
- investment securities - available- for- sale		*8,242*	*8,242*	*9,380*	*9,380*
- held-to-maturity		*487*	*487*	*623*	*623*
Other fixed income securities	7, 8	53,077	53,077	42,297	42,236
- trading portfolio		-	-	*61*	-
- investment securities - available- for- sale		*541*	*541*	*596*	*596*
- held-to-maturity		*52,536*	*52,536*	*41,640*	*41,640*
Shares and other non-fixed income securities	7, 8	721	704	3,750	3,725
- trading portfolio		*563*	*561*	*694*	*691*
-investment securities - available- for- sale		*158*	*143*	*86*	*64*
- held-to-maturity		-	-	*2,970*	*2,970*
Investments in subsidiaries and associates	9	-	4,994	-	3,237
Intangible assets	10	3,876	3,876	3,220	3,220
Property and equipment	11	9,319	9,238	9,419	9,247
Prepayments and accrued income	12	1,976	1,850	613	451
Other assets	13	517	516	715	536
Total assets		**477,024**	**455,183**	**377,912**	**361,263**

The accompanying notes are an integral part of these consolidated financial statements.

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2003

	Notes	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
LIABILITIES					
Balances due to other banks	14	7,491	7,491	6,747	6,747
Demand deposits		*2,789*	*2,789*	*3,638*	*3,638*
Term deposits		*4,702*	*4,702*	*3,109*	*3,109*
Due to customers	15	435,093	413,620	343,132	326,671
Demand deposits		*347,362*	*325,971*	*303,425*	*286,964*
Term deposits		*87,731*	*87,649*	*39,707*	*39,707*
Derivative financial instruments	16	212	212	268	268
Deferred income and accrued expense	17	2,333	2,271	2,558	2,500
Current tax liabilities		*162*	*147*	*1,165*	*1,164*
Deferred tax liabilities		*534*	*534*	*452*	*452*
Other deferred income and accrued expenses		*1,637*	*1,590*	*941*	*884*
Other liabilities		679	373	699	634
Total liabilities		**445,808**	**423,967**	**353,404**	**336,820**
Minority interest		-	-	65	-
SHAREHOLDERS' EQUITY					
Paid-in share capital	18	20,551	20,551	20,346	20,346
Share premium		25	25	-	-
Legal reserve		16	16	16	16
Less: treasury shares		(3)	(3)	(3)	(3)
Revaluation reserve - *property*		652	652	668	668
Revaluation reserve – *available-for-sale assets*		(236)	(236)	67	67
Retained earnings		10,211	10,211	3,349	3,349
Total shareholders' equity		**31,216**	**31,216**	**24,443**	**24,443**
Total liabilities and shareholders' equity		**477,024**	**455,183**	**377,912**	**361,263**
MEMORANDUM ITEMS					
Contingent liabilities (guarantees)		7,122	7,122	9,095	9,095
Letters or credit		1,644	1,644	1,580	1,580
Financial commitments (unutilized credit lines)		10,210	10,210	11,007	11,007
		18,976	**18,976**	**21,682**	**21,682**

The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 11 March 2004 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

STATEMENT OF INCOME FOR THE YEAR ENDED 2003

		2003		2002	
	Notes	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income	19	11,427	10,294	10,414	9,722
Interest expense	20	(2,953)	(2,788)	(2,647)	(2,514)
Net interest income		**8,474**	**7,506**	**7,767**	**7,208**
Commission and fee income	21	10,656	9,197	10,585	9,302
Commission and fee expense	22	(2,405)	(2,089)	(2,216)	(1,669)
Net commission and fee income		**8,251**	**7,108**	**8,369**	**7,633**
Profit on trading with financial instruments, net	23	6,392	4,431	3,503	2,306
Dividends received		8	8	20	20
Other operating income		689	342	941	139
Operating income		**23,814**	**19,395**	**20,600**	**17,306**
Administrative expense	24	(10,104)	(9,700)	(10,773)	(8,850)
Amortization and depreciation charges	25	(2,065)	(1,959)	(2,117)	(1,865)
Other operating expense		(1,817)	(339)	(8)	(8)
Provisions for loans impairment	26	(238)	(238)	(1,343)	(1,343)
Release of previously established provision	26	443	443	1,505	1,505
Provision for investment securities impairment		(81)	(81)	(837)	(837)
Income from subsidiaries	9	-	2,322	-	1,086
PROFIT BEFORE INCOME TAX AND MINORITY INTEREST		**9,952**	**9,843**	**7,027**	**6,994**
Corporate income tax	27	(1,635)	(1,526)	(1,557)	(1,483)
MINORITY INTEREST		-	-	41	-
NET PROFIT FOR THE YEAR		**8,317**	**8,317**	**5,511**	**5,511**
Earning per share		0.41	0.41	0.27	0.27

The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 11 March 2004 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

	Paid-in share capital	Share premium	Legal reserve	Revaluation reserve – property and subsidiaries	Revaluation reserve – available-for-sale investments	Retained earnings	Total Shareholders' equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As of 31 December 2001	**20,206**	**-**	**16**	**683**	**(1,032)**	**(1,167)**	**18,706**
Dividends paid						(1,010)	(1,010)
Net profit for the year	-	-	-		-	5,511	5,511
Transfers	-	-	-	(15)	-	15	-
Revaluation of available-for-sale investments	-	-	-	-	1,099	-	1,099
Share issue	137		-	-	-	-	137
As of 31 December 2002	**20,343**	**-**	**16**	**668**	**67**	**3,349**	**24,443**
Dividends paid	-		-	-	-	(1,471)	(1,471)
Net profit for the year	-		-	-	-	8,317	8,317
Transfers	-		-	(16)	-	16	-
Revaluation of available-for-sale investments	-		-	-	(303)	-	(303)
Share issue	205	25	-	-	-	-	230
As of 31 December 2003	**20,548**	**25**	**16**	**652**	**(236)**	**10,211**	**31,216**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 Group	2003 Bank	2002 Group	2002 Bank
		LVL'000	LVL'000	LVL'000	LVL'000
CASH INFLOW FROM OPERATING ACTIVITIES					
Profit before income tax and minority interest		9,952	9,843	7,027	6,994
Amortization and depreciation		1,569	1,463	1,697	1,445
Goodwill amortization		429	429	420	420
Increase/(decrease) in provisions for loans impairment		(125)	(125)	(162)	(162)
(Profit)/loss from revaluation of long-term investments		-	-	(351)	(351)
Profit from investments in subsidiaries		-	(2,063)	-	(931)
Profit/(loss) from disposals of property and equipment		41	30	(19)	(16)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**11,866**	**9,577**	**8,612**	**7,399**
(Increase)/decrease in prepayments and accrued income		(1,363)	(1,399)	(11)	(35)
Increase/(decrease) in deferred income and accrued expense		696	706	1,529	1,573
Decrease/(increase) in other assets		198	20	(169)	(164)
Increase/ (decrease) in other liabilities		(20)	(261)	379	373
(Increase) in trading securities		(2,818)	(2,880)	(991)	(1,086)
Increase/(decrease) in derivative financial instruments		(56)	(56)	268	268
Increase in investments		(6,976)	(6,979)	(6,467)	(6,467)
(Increase)/decrease in balances due from other credit institutions		403	403	(20,700)	(20,633)
(Increase)/decrease in loans and advances to non-banking customers		(68,915)	(61,444)	(39,517)	(31,810)
(Decrease)/increase in balances due to other credit institutions		1,593	1,593	1,291	1,291
Increase due to customers		91,961	86,949	84,961	78,581
Increase in cash and cash equivalents from operating activities before corporate income tax		**26,569**	**26,229**	**29,185**	**29,290**
Corporate income tax paid		(2,556)	(2,461)	-	-
Net cash and cash equivalents from operating activities		**24,013**	**23,768**	**29,185**	**29,290**
CASH OUTFLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(2,668)	(2,662)	(2,778)	(2,681)
Proceeds from sale of property and equipment		93	93	25	18
(Purchase)/sale of equity investments in other entities and acquisition of subsidiaries		-	306	-	-
Decrease in cash and cash equivalents from investing activities		**(2,575)**	**(2,263)**	**(2,753)**	**(2,663)**
CASH INFLOW FROM FINANCING ACTIVITIES					
Share issue		230	230	137	137
Dividends paid		(1,471)	(1,471)	(1,024)	(1,010)
Increase in cash and cash equivalents from financing activities		**(1,241)**	**(1,241)**	**(887)**	**(873)**
Net cash inflow for the period		**20,197**	**20,264**	**25,545**	**25,754**
Cash and cash equivalents at the beginning of the year		**185,631**	**185,559**	**160,086**	**159,805**
Cash and cash equivalents at the end of the year	30	**205,828**	**205,823**	**185,631**	**185,559**

The accompanying notes are an integral part of the consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

A/s Rietumu Banka (the Bank) was established on 13 May 1992 and incorporated in the Republic of Latvia as a joint stock company, in which the shareholders have limited liability. The main areas of operation of the Bank and subsidiaries (the Group) include granting loans, transferring payments and exchanging foreign currencies both for its customers and for trading purposes. The Bank's legal address is 54 Brīvības street, Riga LV 1011, Latvia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies all of which have been applied consistently (unless otherwise stated), is set out below:

a) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

b) Reporting currency

The accompanying financial statements are reported in thousands of lats (LVL 000's), unless otherwise stated.

c) Basis of accounting

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention as modified by the revaluation of property, available-for-sale investment securities and financial assets and financial liabilities held for trading.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

d) Basis of consolidation

Investments in subsidiaries are accounted for by the equity method in the Bank's financial statements, where the Bank includes in its statement of income its share of subsidiaries' profit or loss during the period.

Subsidiary undertakings, which are those companies and other entities in which the Group, directly or indirectly, has power to exercise control over financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See Note *h)* for the accounting policy on goodwill. The financial statements of the subsidiaries are consolidated in the Group's financial statements on a line-by-line basis by adding together similar types of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions including interest income and expense as well as unrealized profits and loss resulting from intra-group transactions are eliminated in the Group's financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Balances of the foreign subsidiary have been included in the consolidated financial statements at the exchange rate set by the Bank of Latvia as at the end of the reporting period. Statement of income and statement of cash flows of foreign entity are translated into lats at average exchange rates for the year.

e) Loans and advances to non-banking customers

For the purposes of these financial statements, loans and advances to non-banking customers include regular loans, credit card balances, as well as any other outstanding credit balances from non-banking customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Loans and advances to non-banking customers (continued)

All loans and advances are recognized when cash is advanced to borrowers.

Loans and advances to non-banking customers are carried at amortized cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Certain expenses, such as legal fees or sales commissions for employees acting as agents incurred in securing a loan are treated as part of the cost of the transaction.

Any impairment losses on loans and advances to customers are provided for. The amount of the impairment provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The Bank provides commercial and consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the borrowers' ability to repay their loans. The management has considered both specific and general risks when determining the balance of impairment provisions for loan losses.

The impairment provisions for possible credit losses are composed of the estimated figures of provisions.

The level of the impairment provisions is based on the estimates of known relevant factors affecting the loan collectability and collateral values. The ultimate loss, however, may vary significantly from the current estimates. These estimates are reviewed on a monthly basis, and, as adjustments become necessary, they are reported in the statement of income in the period in which they become known.

When a loan is uncollectable, it is written off against the related impairment provision; subsequent recoveries are credited to the provision expense in the statement of income.

f) Investment securities

Investment securities are classified into the following two categories: held-to maturity and available-for-sale assets. Investment securities where the management has both the intent and ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classifies as available-for-sale. Management determines the appropriate classification of its investments at the date of purchase.

Investment securities are initially recognized at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Interest earned whilst holding investment securities is reported as interest income.

All regular way purchases and sales of investment securities are recognized at settlement date, which is the date that the Group commits to purchase or sell the asset.

g) Trading securities

Trading securities are marketable securities that are acquired and sold with the intention of gaining profit on their short-term price fluctuation.

Trading securities are initially recognized at cost, which includes transaction costs and subsequently re-measured at fair value based on quoted bid prices. All related realized and unrealized gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Trading securities (continued)

All regular way purchases and sales of trading securities are recognized at settlement date, which is the date that the Group commits to purchase or sell the asset.

h) Goodwill

Positive goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is amortized using the straight-line method over 5 years.

At each balance sheet date the Bank assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

i) Property and equipment

All property and equipment is stated at historical cost or revalued amount less accumulated depreciation.

Depreciation is provided in equal monthly installments over the expected useful lives, which have been estimated by the management as follows:

Buildings and constructions	50 years
Leasehold improvements	20 years
Office equipment	4 - 5 years
Vehicles	5 years
Other fixed assets	2 - 5 years

Revaluation is made on the basis of valuations performed by independent external valuer. Increases in the carrying amount arising on revaluation of property are credited to the revaluation reserve in shareholders equity. Decreases that offset previous increases are the same asset are charged against that reserve; all other decreases are charged to the statement of income. Each year the difference between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of income) and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Leasehold improvements are capitalized and depreciated over the lesser of their useful life and the remaining lease contract period on a straight-line basis.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of income when the expenditure is incurred.

Property held for sale is recorded at the lower of cost or recoverable amount.

j) Derecognition

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that assets. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

k) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The other impairment losses are recognized in the income statement.

Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of the Bank's trading investments and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.
In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount
An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l) Interest bearing liabilities

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

m) Funds under trust management

Funds managed by the Bank on behalf of its customers, funds and other institutions are not regarded as assets of the Bank and, therefore, are not included in its balance sheet.

n) Income and expense recognition

All interest income and expense items are recognized on an accrual basis using the effective yield method based on actual purchase price. No interest income is recognized on non-performing loans and advances (see paragraph *d*) in which interest is unlikely to be collected. The recognition of interest income ceases when the payment of interest or principal is in doubt and accrued interest is automatically provided for. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

Commissions and fees are generally recognized on an accruals basis when the service has been provided. Loan origination fees for loans, which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield on the loan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Foreign currency translation

Transactions denominated in foreign currency are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Any gain or loss resulting from the change in rates of exchange subsequent to the date of transaction is included in the statement of income as a profit or loss from the revaluation of foreign currency positions. Monetary assets and liabilities, including outstanding commitments to deliver or acquire foreign currencies under spot exchange transactions, are translated at the official rate of exchange at the balance sheet date.

All translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses, whereas translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Thus, underlying translation differences on available-for-sale equities are included in the revaluation reserve in equity.

The principal rates of exchange (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet as of 31 December 2003 and 31 December 2002 were as follows:

31.12.2003		**31.12.2002**	
USD	0.5410	USD	0.5940
EUR	0.6740	EUR	0.6100
RUB	0.0184	RUB	0.0187
UAH	0.0999	UAH	0.1110

p) Corporate income tax

The charge for current taxation is based on computations made by management separately for each of the Group companies in accordance with respective tax legislation.

Deferred tax is calculated separately for each of the Group companies, using the liability method, with respect to all temporary differences arising between the carrying value of assets and liabilities in the balance sheet and the value attributable to these assets and liabilities for tax calculation purposes. Currently enacted tax rates are used in determination of deferred income tax. When an overall deferred tax asset arises, it is only recognized in the balance sheet where its recoverability is foreseen with reasonable certainty.

The principal temporary differences arise from depreciation on property and equipment, provisions for loan loss impairment, tax losses carried forward and revaluation of properties and certain financial assets and liabilities, including derivative contracts.

The amount of deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the statement of income together with the deferred gain or loss.

r) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the following:

\+ Cash and balances with central banks;
\+ Demand deposits due from other banks;
\- Demand deposits due to other banks.

s) Treasury shares

Where the Bank or its subsidiaries purchase the Bank's share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs is shown as a deduction from total shareholders' equity.

t) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in net trading income.

On the date a derivative contract is entered into, the Group designates certain derivatives as a hedge of the fair value of available-for-sale securities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

v) Sale and repurchase agreements and lending of securities

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate and separately disclosed in the respective balance sheet categories in italics in the note 5, 6, 15. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

w) Regulatory requirements

The Bank is subject to the regulatory requirements of the Bank of Latvia and the Finance and Capital Market Commission. The major requirements relate to credit risk concentration, capital adequacy, liquidity and foreign currency exposure.

x) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 FINANCIAL RISK MANAGEMENT

A Strategy in using financial instruments

By its nature the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Fair value hedges

The Group hedges a proportion of its existing foreign exchange risk in available-for-sale equity securities by fair value hedges in the form of treasuries futures.

B Capital adequacy

To monitor the adequacy of its capital the Group uses ratios established by the Bank for International Settlements (BIS) and Financial and Capital Markets Commission. These ratios measure capital adequacy (minimum 8% as required by BIS and minimum 10% as required by the Financial and Capital Markets commission) by comparing the Group's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

A detailed analysis of the Group Capital Adequacy is presented in Note 33.

C Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

FINANCIAL RISK MANAGEMENT (continued)

Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivatives and accounted for as such unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they considered to be “regular way” transactions.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

D Market risk

The group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The group applies a real-time centralized routine process, which enables the Group to be sufficiently flexible to all sudden changes in the financial markets. The system of limits established for market risk management in the Group evaluates such risks on a nominal basis as well as through a ‘value at risk’ methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits, which are monitored on a daily basis.

E Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group’s exposure to foreign currency risk is presented in Note 32.

F Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The Group’s exposure to interest rate risk is presented in Note 35.

G Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

FINANCIAL RISK MANAGEMENT (continued)

G Liquidity risk (continued)

Note 34 analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Maturities of assets and liabilities

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

H Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of mal-administration or under-performance.

4 BALANCES WITH CENTRAL BANKS

	31 December 2003 Group	31 December 2003 Bank	31 December 2002 Group	31 December 2002 Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Cash	4,746	4,746	4,974	4,974
Deposits with the Bank of Latvia	14,959	14,959	11,249	11,249
Total cash and deposits with the Bank of Latvia	**19,705**	**19,705**	**16,223**	**16,223**

Deposits with the Bank of Latvia represent the balance outstanding on the non-interest bearing correspondent account with the Bank of Latvia in LVL.

In accordance with the Bank of Latvia's regulations the Bank is required to maintain a compulsory reserve set at 3% of the average monthly balance (calculated at four intervals during the month) of the following items:

+ deposits from the public
- less liabilities against credit institutions
- less balance due to the State Treasury on its consolidated account with the Bank
+ bonds and other debt securities issued by the Bank.

The compulsory reserve is compared to the Bank's average monthly cash and correspondent account balance in LVL. The total of the Bank's average cash and correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

5 BALANCES DUE FROM CREDIT INSTITUTIONS

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Demand placements with:				
Latvian commercial banks	7,774	7,774	1,765	1,765
OECD credit institutions	172,540	172,540	166,978	166,978
Non-OECD credit institutions	8,598	8,593	4,303	4,231
Total demand placements, net	**188,912**	**188,907**	**173,046**	**172,974**
Term placements with:				
Bank of Latvia	-	-	430	430
Latvian commercial banks	2,543	2,543	-	-
OECD credit institutions	19,204	19,204	24,550	24,550
Non-OECD credit institutions	3,008	3,008	178	178
Amounts receivable under reverse repurchase agreements	*2,467*	*2,467*	-	-
Total term placements	**24,755**	**24,755**	**25,158**	**25,158**
Total balances due from credit institutions, net	**213,667**	**213,662**	**198,204**	**198,132**

During 2003 the average interest rate received on balances due from credit institutions was 1.23% per annum (during 2002 - 2.68%)

As of 31 December 2003, amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	Fair value 2003 LVL '000	Fair value 2002 LVL '000
Russian Eurobonds 2030	3,153	-
	3,153	-

The largest balances due from credit institutions as of 31 December 2003 were as follows:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Vereins und Westbank (Hamburg)	59,896	59,896
Erste bank (Austria)	27,050	27,050
HSBC Bank (USA)	20,246	20,246
BBVA (Madrid)	18,198	18,198
Deutsche Bank	14,495	14,495
Svenska Handels Banken	13,315	13,315
Commerzbank (Frankfurt)	3,031	3,031
Total	**156,231**	**156,231**

As at 31 December 2003 and 2002, term deposits and balances to banks and other financial institutions which individually comprised more than 10% of deposits and balances received to banks and other financial institutions were as follows:

	31 December 2003 Group LVL'000	31 December 2002 Group LVL'000
Vereins und Westbank (Hamburg)	59,896	65,395
Erste bank (Austria)	27,050	26,730
HSBC Bank (USA)	20,246	21,740
Sumitomo bank (London)	-	23,760
Total	**107,192**	**137,625**

6 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

Loans and advances to non-banking customers are comprised of the following:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Private companies	139,242	112,780	82,248	63,523
Amounts receivable under reverse repurchase agreements	*40,791*	*37,870*	*23,760*	*23,760*
Loans secured by securities	*21,375*	-	*18,508*	-
Loans to private individuals	22,831	22,688	11,035	10,545
Total gross loans and advances to non-banking customers	**162,073**	**135,468**	**93,283**	**74,068**
Specific loan impairment provisions (see Note 26)	(811)	(811)	(970)	(970)
Collective impairment provisions (see Note 26)	(270)	(270)	(280)	(280)
Loans and advances to non-banking customers, net	**160,992**	**134,387**	**92,033**	**72,818**
Loans and advances secured by cash deposits	(1,940)	(1,940)	(1,074)	(1,074)
Loans and advances subject to credit risk, net	**159,052**	**132,447**	**90,959**	**71,744**

In 2003, the weighted average interest rates for loans were 8,08 % (2002:10%) and 6.67 % (2002: 7.99%) for short-term and long-term loans, respectively.

Significant credit exposures

As at 31 December 2003 and 2002 the Bank had 7 and 10 borrowers or groups of related borrowers, respectively, whose loan balances exceeded more than 10% of loans to customers. The gross value of these loans as of 31 December 2003 and 2002 were LVL 18,041 thousand and LVL 29,677 thousand respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity (see Note 33 for definition of equity). As of 31 December 2003 the Bank was in compliance with this requirement.

The amount of loans, for which interest is not accrued, is LVL 599 thousand as of 31 December 2003 (2002: LVL 1,340 thousand).

Collateral security

As of 31 December 2003, amounts receivable under reverse repurchase agreements were collateralized by the following securities:

	Fair value 2003 LVL '000	Fair value 2002 LVL '000
US Treasuries	41,102	24,051
	41,102	**24,051**

6 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS (continued)

The loan maturity analysis is as follows:

	Up to 1 months LVL'000	1 to 3 months LVL'000	3 to 12 months LVL'000	1 to 5 years LVL'000	More than 5 years LVL'000	Pledged LVL'000	Total LVL'000
31 December 2003							
Commercial & industrial companies	47,658	26,240	6,904	29,789	23,447	4,217	138,255
Individuals	483	39	1,578	7,085	13,552	-	22,737
Total	**48,141**	**26,279**	**8,482**	**36,874**	**36,999**	**4,217**	**160,992**
31 December 2002							
Commercial & industrial companies	22,606	30,383	6,460	14,405	3,088	4,510	81,452
Individuals	495	82	1,706	3,743	4,555	-	10,581
Total	**23,101**	**30,465**	**8,166**	**18,148**	**7,643**	**4,510**	**92,033**

The following table presents information relating to loans by major geographic areas:

	31 December 2003 LVL'000	31 December 2002 LVL'000
Latvia	73,625	40,539
Non-residents	87,367	51,494
Total	**160,992**	**92,033**

7 TRADING SECURITIES

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
German government bonds	3,394	3,394	-	-
Russian government bonds	1,051	1,051	1,435	1,435
Shares listed on the Moscow stock exchange	302	302	570	570
Shares listed on the Riga stock exchange	259	259	121	121
US corporate bonds	-	-	61	-
Shares listed on the New York stock exchange	2	-	3	-
Total	**5,008**	**5,006**	**2,190**	**2,126**

8 INVESTMENT SECURITIES

Securities available-for-sale:

	31 December 2003 Group LVL'000	31 December 2002 Group LVL'000
Debt securities at fair value		
United States government bonds		
Cost	*8,163*	*8,963*
Revaluation	*25*	*358*
Accrued coupon	*54*	*59*
Carrying value	8,242	9,380
US corporate bonds	541	596
Equity securities		
- Unlisted	158	86
Total securities available-for-sale	**8,941**	**10,062**

Unlisted available for sale equity securities include SWIFT shares and shares of Riga Stock Exchange.

Securities held -to-maturity:

	31 December 2003 Group LVL'000	31 December 2002 Group LVL'000
Listed debt securities – at amortized cost		
Argentina government bonds – cost	*1,903*	*2,089*
Provision for impairment of Argentina government bonds	*(1,416)*	*(1,466)*
Carrying value of Argentina government bonds	487	623
US corporate bonds	10,573	25,379
Canadian corporate bonds	-	1,209
Great Britain corporate bonds	9,764	4,761
Portugal corporate bonds	2,699	-
German corporate bonds	5,560	4,867
Luxemburg corporate bonds	5,419	5,961
Swiss corporate bonds	2,722	1,241
Austrian corporate bonds	1,186	-
Sweden corporate bonds	2,725	-
Norwegian corporate bonds	2,724	-
Japan corporate bonds	2,657	-
Holland corporate bonds	2,707	-
Australian corporate bonds	3,800	-
France corporate bonds	-	1,192
Total securities held-to-maturity	**53,023**	**45,233**
Total investment securities	**61,964**	**55,295**

Investment securities at 31 December 2003 have been split into available-for-sale and held-to-maturity based on whether management had positive intent to hold certain securities until maturity at the date of purchase.

Given the fact that a restructuring of the 2031 Argentina Eurobond is not likely, management decided to swap the 2003 Eurobonds with 2031 Eurobonds in June 2002. Provision for impairment of the Eurobond 2031 has been made at 70% of their face value. Management considers that the estimates that have been used are prudent.

Analysis of movements in the provision for impairment of Argentina government bonds

	2003 LVL '000	2002 LVL '000
Balance at the beginning of the year	1,465	707
Net charge for the year	81	837
Currency revaluation	(130)	(78)
Balance at the end of the year	**1,416**	**1,466**

Maturity analysis of government bonds and other fixed income securities is as follows:

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to12 months LVL'000	1 – 5 years LVL'000	Greater than 5 years LVL'000	Pledged LVL'000	Total LVL'000
31 December 2003							
German government bonds	-	-	-	-	3,394	-	3,394
Russian government bonds	-	-	-	-	1,051	-	1,051
United States government bonds	-	-	-	-	8,242	-	8,242
Argentina government bonds	-	-	-	-	487	-	487
US corporate bonds	-	-	5,955	4,618	-	541	11,114
Austrian corporate bonds	-	-	-	1,186	-	-	1,186
Great Britain corporate bonds	-	-	-	4,320	5,444		9,764
Portugal corporate bonds	-	-	-	-	2,699	-	2,699
German corporate bonds	-	-	-	5,560	-	-	5,560
Luxemburg corporate bonds	-	-	-	5,419	-	-	5,419
Swiss corporate bonds	-	1,106	-	1,616	-	-	2,722
Sweden corporate bonds	-	-	-	-	2,725	-	2,725
Norwegian corporate bonds	-	-	-	-	2,724	-	2,724
Japan corporate bonds	-	-	-	-	2,657	-	2,657
Holland corporate bonds	-	-	-	2,707	-	-	2,707
Australian corporate bonds	-	-	-	-	3,800	-	3,800
Total	**-**	**1,106**	**5,955**	**25,426**	**33,223**	**541**	**66,251**
31 December 2002							
Russian government bonds	-	-	-	-	1,435	-	1,435
United States government bonds	-	-	-	-	9,380	-	9,380
Argentina government bonds	-	-	-	-	623	-	623
US corporate bonds	2,462	3,623	8,120	11,235	-	596	26,036
Canadian corporate bonds	-	-	1,209	-	-	-	1,209
Great Britain corporate bonds	-	-	1,791	-	-	-	1,791
France corporate bonds	-	1,192	-	-	-	-	1,192
German corporate bonds	-	-	-	4,867	-	-	4,867
Luxemburg corporate bonds	-	-	-	5,961	-	-	5,961
Swiss corporate bonds	-	-	-	1,241	-	-	1,241
Total	**2,462**	**4,815**	**11,120**	**23,304**	**11,438**	**596**	**53,735**

9 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

As of 31 December 2003 and 2002, the Bank's investments in subsidiaries are comprised of the following:

Company	Industry	Legal address	Amount of ownership (%)	Amount of investment	Amount of ownership (%)	Amount of investment
			31 December 2003		31 December 2002	
RB Securities Ltd	Financial Services	3 Chrysanthou Mylona street, Limassol, Cyprus	99.99%	4,994	99.99%	2,897
AS "Baltijas karšu centrs"	Processing of payment cards	Dzērbenes14, Riga, Latvia	-	-	75%	185
UAB "Baltijos Vertybiniai popieriai"	Brokerage Services	Gedemino pr. 60, Vilnius, Lithuania	-	-	99%	155
Total investments in subsidiaries				**4,994**		**3,237**

RB Securities Ltd is consolidated in the Group accounts.

	RB Securities Ltd	Baltijos Vertybiniai Poperiai	Baltijas Karšu centrs	Total
Investment value as of 31 December 2002	**2,897**	**155**	**185**	**3,237**
Cash received from sale/liquidation	-	(187)	(119)	(306)
Income/(loss) from sale/liquidation of subsidiaries	-	32	(66)	(34)
Revaluation	2,356	-	-	2,356
Foreign currency revaluation	(259)	-	-	(259)
Investment value as of 31 December 2003	**4,994**	**-**	**-**	**4,994**

The Bank liquidated its investment in JSC "Baltijas karšu centrs" during 2003 and recorded a loss of LVL 187 thousand. The Bank disposed of the total invesment in JSC "Baltijos Vertybiniai popieriai" for LTL 995 thousand in 2003.

10 INTANGIBLE ASSETS

Intangible assets of the Bank are comprised as follows:

	Goodwill	Negative goodwill	Software	Work in progress	Advance payments for software	Total
Historical Cost						
Balance at 31 December 2002	**2,181**	**(57)**	**1,410**	**283**	**977**	**4,794**
Additions	-	-	328	972	164	1,464
Transfers	-	-	28	929	(957)	-
Currency revaluation	-	-	-	(6)	(17)	(23)
Disposals	-	57	(21)	-	(32)	4
Balance at 31 December 2003	**2,181**	**-**	**1,745**	**2,178**	**135**	**6,239**
Amortization						
Balance at 31 December 2002	**799**	**(24)**	**799**	**-**	**-**	**1,574**
Amortization charge for the year	437	(8)	349	-	-	778
Disposals	-	32	(21)	-	-	11
Balance at 31 December 2003	**1,236**	**-**	**1,127**	**-**	**-**	**2,363**
Net book value						
At 31 December 2002	**1,382**	**(33)**	**611**	**283**	**977**	**3,220**
At 31 December 2003	**945**	**-**	**618**	**2,178**	**135**	**3,876**

11 PROPERTY AND EQUIPMENT

Property and equipment of the Bank is comprised as follows:

	Build-ing	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Fixed assets not in use	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation 31 December 2002	**5,525**	**1,767**	**787**	**4,189**	**16**	**4**	**295**	**12,583**
Additions	2	1	313	738	67	-	77	1,198
Disposals	-	-	(87)	(479)	(4)	(2)	(117)	(689)
Currency revaluation	-	-	-	-	(3)	-	-	(3)
Transfers	1,677	(1,676)	-	11	(12)	-	-	-
31 December 2003	**7,204**	**92**	**1,013**	**4,459**	**64**	**2**	**255**	**13,089**
Accumulated depreciation 31 December 2002	**590**	**-**	**395**	**2,240**	**-**	**-**	**111**	**3,336**
Charge for the period	121	-	146	809	-	-	38	1,114
Disposals	-	-	(75)	(474)	-	-	(50)	(599)
31 December 2003	**711**	**-**	**466**	**2,575**	**-**	**-**	**99**	**3,851**
Net book value								
31 December 2002	**4,935**	**1,767**	**392**	**1,949**	**16**	**4**	**184**	**9,247**
31 December 2003	**6,493**	**92**	**547**	**1,884**	**64**	**2**	**156**	**9,238**

Property and equipment of the Group is comprised as follows:

	Buildings	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Fixed assets not in use	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation	**5,525**	**1,767**	**881**	**4,552**	**16**	**4**	**295**	**13,040**
31 December 2002								
Additions	2	1	335	742	67	-	77	1,224
Disposals	-	-	(93)	(479)	(4)	(2)	(117)	(695)
Currency revaluation	-	-	-	-	(3)	-	-	(3)
Transfers	1,677	(1,676)	-	11	(12)		-	-
31 December 2003	**7,204**	**92**	**1,123**	**4,826**	**64**	**2**	**255**	**13,566**
Accumulated depreciation								
31 December 2002	**590**	**-**	**407**	**2,513**	**-**	**-**	**111**	**3,621**
Charge for the period	121	-	165	896	-	-	38	1,220
Disposals	-	-	(77)	(467)	-	-	(50)	(594)
31 December 2003	**711**	**-**	**495**	**2,942**	**-**	**-**	**99**	**4,247**
Net book value								
31 December 2002	**4,935**	**1,767**	**474**	**2,039**	**16**	**4**	**184**	**9,419**
31 December 2003	**6,493**	**92**	**628**	**1,884**	**64**	**2**	**156**	**9,319**

The assets stated above are held for the Group's own use.

12 PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income are comprised of the following:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Accrued interest income from loans	446	352	214	145
Accrued interest income on balances due from banks	64	64	54	54
Accrued income from forward deals	1,222	1,222	25	25
Other accrued income	8	8	-	-
Prepaid expenses	236	204	320	227
Total	**1,976**	**1,850**	**613**	**451**

13 OTHER ASSETS

Other assets are comprised of the following:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Traveler cheques	73	73	102	102
Advances for goods and services	43	43	47	47
Other assets	339	338	509	330
Non-interest bearing deposit with SWIFT	58	58	53	53
Cash advances to employees	5	5	10	10
	518	**517**	**721**	**542**
Provision for other assets (Note 26)	(1)	(1)	(6)	(6)
Total	**517**	**516**	**715**	**536**

14 BALANCES DUE TO OTHER BANKS

Balances due to credit institutions are comprised of the following:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Balances due to credit institutions registered in Latvia	3,045	3,045	3,047	3,047
Balances due to credit institutions registered in OECD countries	1,550	1,550	915	915
Balances due to credit institutions registered in non-OECD countries	2,896	2,896	2,785	2,785
Total	**7,491**	**7,491**	**6,747**	**6,747**

The largest amounts due to banks were as follows:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Latvijas Tirdzniecības banka	2,780	2,780
EBRD	1,550	1,550
Barrington bank	1,608	1,608
Total	**5,938**	**5,938**

The maturity profile of balances due to credit institutions were as follows:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Demand deposits	2,789	2,789	3,638	3,638
Term deposits	4,702	4,702	3,109	3,109
Total	**7,491**	**7,491**	**6,747**	**6,747**

15 DUE TO CUSTOMERS

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Demand deposits from				
Municipality	2	2	3	3
State enterprises	14	14	302	302
Private companies	13,415	13,216	10,250	10,250
Individuals	18,199	18,197	12,442	12,442
Private companies non-residents	280,107	263,215	254,385	237,924
Individuals non-residents	35,625	31,327	26,043	26,043
Total demand deposits	**347,362**	**325,971**	**303,425**	**286,964**
Term deposits				
Municipality		-	-	-
Private companies	1,087	1,087	470	470
Individuals	5,869	5,869	3,771	3,771
Private companies non-residents	68,700	68,618	27,571	27,571
Amounts payable under repurchase agreements	*6,241*	-	*6,788*	-
Individuals non-residents	12,075	12,075	7,895	7,895
Total term deposits	**87,731**	**87,649**	**39,707**	**39,707**
Total due to customers	**435,093**	**413,620**	**343,132**	**326,671**

Amounts payable under repurchase agreements are collateralized by customers' assets of LVL 12,000 thousand held under custody by the Group.

The maturity profile of deposits from the public was as follows:

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to12 months LVL'000	1 to 5 years LVL'000	Greater than 5 year LVL'000	Total LVL'000
31 December 2003						
Private companies	551	300	169	39	28	1,087
Individuals	648	569	3,063	1,589	-	5,869
Non-residents	62,964	7,764	7,627	2,420	-	80,775
Total	**64,163**	**8,633**	**10,859**	**4,048**	**28**	**87,731**
31 December 2002						
Private companies	86	-	314	47	23	470
Individuals	280	562	1,670	1,139	120	3,771
Non-residents	17,412	3,251	12,381	2,422	-	35,466
Total	**17,778**	**3,813**	**14,365**	**3,608**	**143**	**39,707**

In 2003 the weighted average interest rate on term deposits was 1.22% and 3.51% (2002: 1.62% and 4.07%) for short and long-term deposits respectively.

As of 31 December 2003, the Group maintained customer deposit balances of LVL 12,237 thousand (2002: LVL 10,029 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Bank.

16 DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

The Group's policy is to hedge its exposure to fair value change of available for sale US Treasury (see note 2 v for more details on risk management).

	Contract amount LVL'000	31 December 2003 Fair value Bank LVL'000	Contract amount LVL'000	31 December 2002 Fair value Bank LVL'000
Derivatives designated as fair value hedges				
Treasury futures	**8,115**	**212**	**8,910**	**268**

17 DEFERRED INCOME AND ACCRUED EXPENSE

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Deferred income	76	76	94	94
Accrued interest expense on deposits	382	352	406	375
Current tax liability	162	147	1,165	1,165
Deferred tax liability (see Note 27)	534	534	452	452
Other	1,179	1,162	441	414
Total	**2,333**	**2,271**	**2,558**	**2,500**

18 PAID-IN SHARE CAPITAL

As of 31 December 2003 the authorized and issued share capital comprised of 20,551,375 (2002: 20,346,375) shares with a par value of LVL 1 per share, paid share capital comprised of 20,548,875 (2002: 20,343,875) shares. All shares are distributed as follows:

	31 December 2003 LVL'000	31 December 2002 LVL'000
Companies non-residents	571	3,123
Members of the Board	8	8
Private persons	19,972	17,215
Total	**20,551**	**20,346**

The largest shareholders of the Bank as of 31 December 2003:

	31 December 2003 Paid capital LVL' 000	31 December 2003 Percentage holding
Leonid Esterkin	7,429	36.15
Tony Levin	5,428	26.41
Arkady Suharenko	3,888	18.92
Others	3,806	18.52
Total	**20,551**	**100.00**

The Bank owns 2,500 shares, which are reserved for the Board members. The Members of the Board hold non-voting shares.

On 6 September 2003 the bank issued 205 thousand shares with a par value of LVL 1 to members of the Board and employees for LVL 230 thousand.

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the Meeting on 22 March 2004, a dividend in respect of 2003 of LVL 0.095 per share (2002: actual dividend per share LVL 0.072) amounting to total of LVL 1,952 thousand (2002: actual LVL 1,471 thousand) is to be proposed. The financial statements of 2003 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2004.

19 INTEREST INCOME

Interest income is comprised of the following:

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
On balances due from credit institutions	2,788	2,788	2,634	2,634
On loans granted to customers	6,393	5,264	6,123	5,447
On debt securities	2,246	2,242	1,648	1,632
Other	-	-	9	9
Total	**11,427**	**10,294**	**10,414**	**9,722**

20 INTEREST EXPENSE

Interest expense is comprised of the following:

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
On due to customers	1,951	1,786	1,921	1,788
On balances due to other banks	270	270	587	587
Other	732	732	139	139
Total	**2,953**	**2,788**	**2,647**	**2,514**

21 COMMISSION AND FEE INCOME

Commission and fee income is comprised of the following:

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
Money transfers	5,871	5,873	5,452	5,452
Cash withdrawals	472	472	497	497
Commission income from payment cards	1,434	1,434	1,686	1,686
Revenue from customer asset management and brokerage commissions	1,626	165	1,123	15
Account opening	209	209	310	310
Commission income from loans	506	506	447	447
Other	538	538	1,070	895
Total	**10,656**	**9,197**	**10,585**	**9,302**

22 COMMISSION AND FEE EXPENSE

Commission and fee expense is comprised of the following:

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
Banks	1,427	1,429	1,040	1,040
Brokerage commission	343	27	555	22
Cash withdrawals	17	17	22	22
Credit card expenses	563	563	542	542
Other commission	55	53	57	43
Total	**2,405**	**2,089**	**2,216**	**1,669**

23 PROFIT FROM TRADING WITH FINANCIAL INSTRUMENTS, NET

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
Foreign exchange (loss)/profit from conversion of Russian Rouble	941	941	731	731
Foreign exchange profit from conversion of Belorussian Rouble	37	37	35	35
Foreign exchange profit from conversion of Ukrainian Hryvna	14	14	18	18
Foreign exchange profit from conversion of OECD country currencies	1,993	1,990	1,166	1,147
Income from foreign currency revaluation	40	22	295	299
Profit from deals with trading securities	2,610	673	1,185	44
Profit from revaluation of securities	5	2	259	224
Loss from deals with other financial instruments	(208)	(208)	(384)	(406)
Other	960	960	198	214
Total net gain from trading with securities and foreign currencies	**6,392**	**4,431**	**3,503**	**2,306**

Foreign currency contracts

The table below summarizes the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2003. The resultant unrealized gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognized in the income statement and in prepaid expenses and accrued income and other liabilities.

	Notional amount		Fair value			
	2003	2002	2003		2002	
			Assets	Liabilities	Assets	Liabilities
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Forward contracts	82,548	16,288	1,222	(134)	19	(119)

As of 31 December 2003 there were 71 outstanding foreign exchange agreements (2002: 31).

24 ADMINISTRATIVE EXPENSES

Salaries, wages and related social security contributions represent the basic remuneration of the employees, social security contributions as well as other remuneration. During the years ended 31 December 2003 and 2002, the Bank employed on average 561 and 522 employees, respectively.

Administrative expense is comprised of the following:

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
Salaries to Board of Directors and Council	760	760	815	815
Staff salaries	3,562	3,397	3,281	3,006
Social tax	889	852	889	819
Accruals for annual leave	255	255	104	104
Communications	1,158	1,142	1,109	1,064
Professional fees	186	186	1,397	190
Advertising and marketing	260	260	167	167
Charitable donations	358	358	310	310
Utilities and maintenance	111	111	114	114
Representation	98	78	209	208
Travel	187	187	191	177
Rent	324	266	470	367
Stationary	74	74	80	80
Training	44	44	49	49
Fines	17	17	-	-
Security	8	8	8	8
Property tax	92	92	82	82
Other	1,721	1,613	1,498	1,290
Total	**10,104**	**9,700**	**10,773**	**8,850**

25 AMORTIZATION AND DEPRECIATION CHARGES

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
Property and equipment depreciation	1,220	1,114	1,176	1,066
Leasehold refurbishments written off	67	67	-	-
Goodwill amortization	429	429	420	420
Intangible assets amortization	349	349	521	379
Total	**2,065**	**1,959**	**2,117**	**1,865**

26 PROVISIONS

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
Provision expense for loans impairment	(238)	(238)	(1,303)	(1,303)
Provision on credit card operations	-	-	(29)	(29)
Written off assets	-	-	(11)	(11)
Provision expense charged to the statement of income	**(238)**	**(238)**	**(1,343)**	**(1,343)**
Release of previously established provision	299	299	1,460	1,460
Release of previously established provision on card operations	29	29	-	-
Release of previously established provision on bonuses	90	90	-	-
Recovery of previously written off assets	25	25	45	45
Release of previously established provision	**443**	**443**	**1,505**	**1,505**
Provision charged to statement of income, net	**205**	**205**	**162**	**162**

The following table reflects the total of the Bank's provisions for loans impairment at the end of the reporting years:

	Loans	Other	Total
Provisions as of 31 December 2001	**1,776**	**57**	**1,833**
Decrease of provisions	(1,448)	(57)	(1,505)
Net of provisions charged to the statement of income	1,328	15	1,343
Written off assets	(390)	(9)	(399)
Currency revaluation	(16)	-	(16)
Provisions as of 31 December 2002	**1,250**	**6**	**1,256**
Decrease of provisions	(299)	-	(299)
Net of provisions charged to the statement of income	238	-	238
Written off assets	(44)	(5)	(49)
Currency revaluation	(64)	-	(64)
Provisions as of 31 December 2003	**1,081**	**1**	**1,082**

27 TAXATION

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate for the Parent as follows:

	2003 Group LVL'000	2003 Bank LVL'000	2002 Group LVL'000	2002 Bank LVL'000
Profit before taxation	**9,952**	**9,843**	**7,027**	**6,994**
Theoretically calculated tax at tax rate of 19% [2002: 22%]	1,890	1,870	1,546	1,539
Expenses not deductible for tax purposes	276	276	320	258
Non-taxable income	-	(448)	(22)	(272)
Relief for donations	(296)	(293)	(229)	(229)
Changes in previously unrecognized deferred tax	-	-	144	159
Effect of different tax rates in other countries	(235)	-	(223)	-
Effect of changing Corporate tax rates on deferred tax calculation	-	121	21	28
Tax charge	**1,635**	**1,526**	**1,557**	**1,483**

Deferred tax has been calculated using the following temporary differences between book value and taxable value of assets and liabilities:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Temporary difference on depreciation of fixed assets	690	690	570	557
Temporary difference on general impairment provisions	(41)	(41)	(59)	(59)
Tax loss carried forward	-	-	(4)	-
Revaluation reserve – available-for-sale investments	-	-	16	16
Temporary difference on accruals for vacations and bonuses	(99)	(99)	(46)	(37)
Temporary differences from revaluation of other financial assets and liabilities	(16)	(16)	(25)	(25)
Deferred tax liability	**534**	**534**	**452**	**452**

28 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	2003 Bank	2002 Bank
Net profit attributable to shareholders	**8,317,000**	**5,511,000**
Ordinary shares as at 1 January	20,343,875	20,206,875
Purchase of treasury shares	-	-
Number of ordinary shares issued during the year	205,000	137,000
Ordinary shares as at 31 December	20,548,875	20,343,875
Weighted average number of ordinary shares outstanding during the year	**20,408,708**	**20,239,530**
Basic earnings per share (expressed in LVL per share)	**0.41**	**0.27**

The Bank has no dilutive potential shares and therefore diluted earnings per share are the same as basic earnings per share.

29 MEMORANDUM ITEMS

The structure of funds under trust management outstanding as of 31 December 2003 and 2002 were as follows:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Fiduciary loans	33,714	25,883	19,312	19,312
Russian government bonds	26,138	3,223	23,504	116
Shares listed on the Russian stock exchange	24,621	110	6,804	69
Brazilian government bonds	7,865	-	2,243	-
United States corporate bonds	6,974	117	6,426	111
Venezuela government bonds	4,543			
Argentina government bonds	3,809	-	2,362	-
Ukrainian government bonds	3,558	504	2,982	512
Russian corporate bonds	1,962			
Shares listed on the New York stock exchange	1,824	20	1,491	15
Shares listed on Lithuanian stock exchange	1,791	-	-	-
United States government bonds	1,638	-	2,535	-
Kazakhstan government bonds	1,523	-	-	-
Colombian government bonds	1,101	-	-	-
Australian corporate bonds	541	541	-	-
Shares listed on Kazakhstan Stock exchange	463	-	-	-
Ecuadorian government bonds	420	-	-	-
Shares listed in Riga Stock Exchange	248	-	-	-
Mutual funds	176	176	157	157
Mexico government bonds	161	-	-	-
Israel government bonds	155	-	-	-
Byelorussia government bonds	134	134	-	-
Romanian government bonds	82	-	-	-
Slovakian government bonds	80	-	-	-
Croatia government bonds	74	-	-	-
Bulgarian government bonds	74	-	-	-
Poland government bonds	71	-	-	-
France corporate bonds	68	-	-	-
Sweden corporate bonds	63	-	-	-
Privatization certificates	55	55	60	56
Shares listed on Frankfurt stock exchange	34	-	-	-
Eurobond fund	33	33	-	-
Shares listed on Honk Kong stock exchange	15	-	-	-
Shares listed in Australian Stock Exchange	2	-	-	-
Estonian corporate bonds	-	-	44	44
Other assets	8,599	-	6,944	-
Total	**132,609**	**30,796**	**74,864**	**20,392**

Funds under trust management represent securities and other assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such securities. The Group is not subject to interest, credit and currency risk with respect of these securities in accordance with the agreements with customers. All securities are stated at their market value.
Customers' assets of LVL 12,443 thousand held by the Group under custody were used to obtain the funding reflected under the repurchase payables of LVL 6,241 thousand described in note 15.

Legal Proceedings. As of 31 December 2003 there were 13 legal proceedings outstanding against the Group. Total amount disputed in these proceedings is LVL 2,960 thousand. Provisions are made for claims where management on the basis of professional advice to the Group, considers that it is likely that a loss may eventuate. (2002: nine outstanding legal proceedings against the Bank).

Credit related commitments. The primary purpose of credit commitments issued to customers is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Cash	4,746	4,746	4,974	4,974
Balances due from the Bank of Latvia	14,959	14,959	11,249	11,249
Demand deposits due from other banks	188,912	188,907	173,046	172,974
(Demand deposits due to other banks)	(2,789)	(2,789)	(3,638)	(3,638)
Total	**205,828**	**205,823**	**185,631**	**185,559**

31 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies.

Loans and advances issued to related parties were as follows:

	31 December 2003 Amount LVL'000	31 December 2002 Amount LVL'000
Loans:		
Loans at the beginning of year	1,074	304
Loans to management and directors issued during year	2,104	2,681
Transfers	229	-
Loan repayment during the year	(1,410)	(1,911)
Loans to management as at end of year	1,997	1,074
Interest income earned	37	32
Deposits		
Deposits at the beginning of year	53	105
Deposits received during year	2,893	2,392
Transfers	273	-
Deposits repaid during the year	(1,397)	(2,444)
Deposits at the end of year	1,822	53
Interest expense on deposits	73	10
Guarantees and credit lines issued by the Group for management and Directors	262	97

No provisions have been recognized in respect of loans or guarantees given to related parties (2002:nil).

All transactions with related parties have been carried out at length arm's principle.

As of 31 December 2003, the Bank was in compliance with the regulations under the Law On Credit Institutions requiring that the total of non-zero risk credit exposures to related parties may not exceed 15% of the Bank's equity, as defined in Note 33.

32 FOREIGN EXCHANGE EXPOSURES

The following table provides analysis of the Bank's assets, liabilities and applicable memorandum items by currency as of 31 December 2003:

				31 December 2003		31 December 2002	
	Assets	**Liabilities**	**Net future open position**	**Open position**	**Percent of share capital**	**Open position**	**Percent of share capital**
USD	346,130	341,828	(5,005)	(703)	(2.79)	448	2.04
RUB	8,469	8,792	-	(323)	(1.28)	(68)	(0.31)
GBP	2,687	3,432	-	(745)	(2.96)	713	3.24
EUR	73,531	78,817	5,666	380	1.51	165	0.75
LTL	152	3	-	149	0.59	44	0.20
Other (short)	1,221	1,268	-	(47)	(0.19)	(10)	(0.05)
Other (long)	61,925	61,528	-	397	1.58	149	0.68
Total	**494,115**	**495,668**	**661**				
Total short position					**(1,818)**		**(78)**
Total long position					**926**		**1,519**
Total open position					**7.22%**		**6.90%**
Capital requirement for foreign currency exchange risk					**131**		**109**

The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures.

As of 31 December 2003, the Bank was in compliance with the Law on Credit Institutions regulatory requirements requiring that open positions in any individual foreign currency may not exceed 10% of Bank's equity (see Note 33 for the definition of Bank's equity under the Finance and Capital Markets Commission guidelines), and that the total foreign currency open position may not exceed 20% of the Bank's equity.

33 CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and similar risks arising from the portfolio of assets of the Bank and the memorandum items exposures of the Bank.
Based on the requirements set forth by the Finance and Capital Market Commission in respect to share capitals of banks, the Bank's share capital to be utilized in the capital adequacy ratio as of 31 December 2003 has been calculated as follows:

Tier 1	
- paid-in share capital	20,551
- share premium	25
- reserve capital	16
- accumulated profit	1,894
- less: treasury shares	(3)
- profit of the year 2003	8,317
Deductions from the capital base	
Intangible assets	(3,876)
Dividends declared	(1,952)
Total Tier 1	**24,972**
70% of property revaluation reserve	456
Assets available-for-sale revaluation reserve	(236)
Total Tier 2	**220**
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission	**25,192**
Tier 2 Under the Basle Agreement	
Property revaluation reserve	652
Assets available-for-sale revaluation reserve	(236)
Equity to be utilized for the capital adequacy calculation under the Basle Agreement	**25,388**

33 CAPITAL ADEQUACY (continued)

As of 31 December 2003, the Bank was in compliance with the Law On Latvian Credit Institutions and the requirements of the Finance and Capital Market Commission in respect to capital adequacy and the minimum equity level. The calculation of capital adequacy according to the Finance and Capital Market Commission requirements is presented in the following table:

	Assets 31 December 2003	Risk weighting %	Risk weighted assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	19,705	0%	-
Balances due from governments and central banks within A zone countries	8,242	0%	-
Loans and advances secured by deposits and A zone government bonds	39,853	0%	-
Balances due from credit institutions within A zone countries	225,560	20%	45,112
Demand deposits with credit institutions within Latvia	7,774	20%	1,555
Term deposits with credit institutions within Latvia	2,543	50%	1,272
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	7,907	50%	3,954
Accrued income and prepayments	1,494	100%	1,494
Balances due from governments and central banks within B zone countries	487	100%	487
Balances due from credit institutions within B zone countries	11,601	100%	11,601
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	106,244	100%	106,244
Shares and other non-fixed income securities and investments in subsidiaries	5,137	100%	5,137
Property and equipment	9,238	100%	9,238
Other assets	516	100%	516
Total assets	**446,301**		**186,610**
Memorandum items			
Letters of credit	1,283	20%	257
Letters of credit with zero risk weighted	361	0%	-
Credit commitments	8,980	50%	4,490
Credit commitments with zero risk weighted	1,230	0%	-
Outstanding guarantees with 100% risk weighted	4,773	100%	4,773
Outstanding guarantees with zero risk weighted	2,349	0%	-
Total assets and memorandum items for capital adequacy			**196,130**
Capital requirement for credit risk of banking book			**19,613**
Capital requirement for position risk of trading book			**396**
Capital requirement for deal partners			**145**
Capital requirement for foreign currency exchange risk			**131**
Capital charges covered by own funds			**4,907**
Capital adequacy ratio			**12.42%**

A zone comprises countries which are full members of the OECD and which had not restructured their external debt during the last 5 years and which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.

As of 31 December 2003 Group's capital adequacy according to the Finance and Capital Market Commission's requirements was 12.42%. The Law On Credit Institutions and Finance and Capital Market Commission's requirements in respect of minimum capital adequacy are 10%.

33 CAPITAL ADEQUACY (continued)

The capital adequacy of the Group under the Basle agreement as of 31 December 2003 is calculated as follows:

	Assets As of 31 December 2003	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	19,705	0%	-
Claims on OECD central governments and central banks	8,242	0%	-
Loans and advances secured by deposits and OECD countries government bonds	42,798	0%	-
Balances due from credit institutions within OECD area	225,560	20%	45,112
Balances due from credit institutions within non-OECD area	21,847	20%	4,369
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	7,907	50%	3,954
Balances due from credit institutions within non-OECD area with maturity of over one year	76	100%	76
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	129,998	100%	129,998
Claims on central governments outside the OECD (unless denominated in national currency)	487	100%	487
Shares and other non-fixed income securities and investments in subsidiaries	158	100%	158
Property and equipment	9,319	100%	9,319
Accrued income and prepayments	1,526	100%	1,526
Other assets	517	100%	517
Total assets	**468,140**		**195,516**
Memorandum items			
Letters of credit	1,283	20%	257
Letters of credit with zero risk weighted	361	0%	-
Credit commitments	8,980	50%	4,490
Credit commitments with zero risk weighted	1,230	0%	-
Outstanding guarantees with 100% risk weighted	4,773	100%	4,773
Outstanding guarantees with zero risk weighted	2,349	0%	-
Total assets and memorandum items for capital adequacy			**205,036**
Capital requirement for credit risk of banking book			**20,504**
Capital requirement for position risk of trading book			**396**
Capital requirement for deal partners			**146**
Capital requirement for foreign currency exchange risk			**131**
Total share capital for capital adequacy			**4,211**
Capital adequacy ratio			**11.99%**

The Group's risk based capital adequacy as of 31 December 2003 was 11.99%, which is above the minimum ratio of 8% recommended under the Basle agreement.

34 ASSETS, LIABILITIES AND SHAREHOLDER'S EQUITY BY MATURITY PROFILE

The table below allocates the Group's assets, liabilities and shareholder's equity to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity profile based on the balances as of 31 December 2003 was the following:

LVL'000	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Pledged	Total
Assets							
Cash and deposits with the Bank of Latvia	19,705	-	-	-	-	-	19,705
Balances due from credit institutions	208,659	811	3,387	-	-	810	213,667
Loans and advances to non-banking customers	48,141	26,279	8,482	36,874	36,999	4,217	160,992
Government bonds and other fixed income securities	-	1,106	5,955	25,426	33,223	541	66,251
Shares and other non-fixed income securities	563	-	-	-	158	-	721
Intangible assets		-	-	-	3,876	-	3,876
Property and equipment	-	-	-	-	9,319	-	9,319
Other assets	517	-	-	-	-	-	517
Prepayments and accrued income	1,956	4	16	-	-	-	1,976
Total assets	**279,541**	**28,200**	**17,840**	**62,300**	**83,575**	**5,568**	**477,024**
Less prepaid expenses	**(236)**	**-**	**-**	**-**	**-**	**-**	**(236)**
Total assets for calculation of liquidity	**279,305**	**28,200**	**17,840**	**62,300**	**83,575**	**5,568**	**476,788**
Liabilities							
Balances due to other banks	3,984	900	981	1,626	-	-	7,491
Due to customers	411,525	8,633	10,859	4,048	28	-	435,093
Derivative financial instruments	-	212	-	-	-	-	212
Other liabilities	679	-	-	-	-	-	679
Deferred income and accrued expense	694	544	532	563	-	-	2,333
Total shareholders' equity	-	-	-	-	31,216	-	31,216
Total liabilities and shareholders' equity	**416,882**	**10,289**	**12,372**	**6,237**	**31,244**	**-**	**477,024**
Net liquidity	**(137,577)**	**17,911**	**5,468**	**56,063**	**52,331**	**5,568**	**(236)**
Total liquidity	**(137,577)**	**(119,666)**	**(114,198)**	**(58,135)**	**(5,804)**	**(236)**	

35 INTEREST RATE RISK ANALYSIS

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The Bank seeks to control this risk through the activities of the Bank's Treasury, Treasury policy and Asset and Liability committee.

Maturity profile of assets, liabilities and shareholders' equity of the Group as at 31 December 2003 was as follows:

LVL'000	Up to 1 month	1 - 3 months	3 – 12 months	1 - 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with the Bank of Latvia	-	-	-	-	-	19,705	19,705
Balances due from credit institutions	196,433	811	3,387	-	-	13,036	213,667
Loans and advances to non-banking customers	51,759	26,279	8,482	36,874	36,999	599	160,992
Government bonds and other fixed income securities	-	1,106	5,955	25,967	32,736	487	66,251
Shares and other non-fixed income securities	-	-	-	-	-	721	721
Intangible assets	-	-	-	-	-	3,876	3,876
Property and equipment	-	-	-	-	-	9,319	9,319
Other assets	-	-	-	-	-	517	517
Prepayments and accrued income	-	-	-	-	-	1,976	1,976
Total assets	**248,192**	**28,196**	**17,824**	**62,841**	**69,735**	**50,236**	**477,024**
Liabilities							
Balances due to credit institutions	2,554	900	981	1,626	-	1,430	7,491
Deposits from the public	125,287	8,633	10,859	4,048	28	286,238	435,093
Derivatives	-	-	-	-	-	212	212
Other liabilities	-	-	-	-	-	2,333	2,333
Deferred income and accrued expense	-	-	-	-	-	679	679
Total shareholders' equity	-	-	-	-	-	31,216	31,216
Total liabilities and shareholders' equity	**127,841**	**9,533**	**11,840**	**5,674**	**28**	**322,108**	**477,024**
Interest sensitivity gap	**120,351**	**18,663**	**5,984**	**57,167**	**69,707**		

36 AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2003 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value LVL'000	2003 Average Effective Interest Rate
Assets		
Balances due from credit institutions	200,631	1.23
Investments	61,319	3.60
Financial instruments held for trading	4,445	4.43
Reverse repurchase agreements	40,791	1.93
Loans to customers	119,602	6.48
Total interest bearing assets	**426,788**	**3.15**
Liabilities		
Deposits and balances from banks	6,061	2.13
Current accounts and deposits from customers	148,855	1.53
Total interest bearing liabilities	**154,916**	**1.55**