

**A/S REĢIONĀLĀ
INVESTĪCIJU BANKA**

**ANNUAL REPORT FOR THE YEAR
ENDED 31 DECEMBER 2004**



INVESTĪCIJU BANKA
A/S REĢIONĀLĀ INVESTĪCIJU BANKA

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ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

CONTENTS

Report of the Management	3
The Council and the Board of the Bank	4
Statement of Responsibility of the Management	5
Auditors' Report	6
Financial Statements:	
Income Statement	7
Balance Sheet and Memorandum Items	8
Statement of Changes in Shareholders' Equity	9
Cash Flow Statement	10
Notes to the Financial Statements	11 - 26

A/S Reģionālā Investīciju banka

J. Alunana iela 2, Rīga, LV 1010, Latvia

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Registration number: 000 356 337

REPORT OF THE MANAGEMENT

These financial statements are prepared to present financial results of the operations of A/S Reģionālā Investīciju banka (hereinafter – Bank) and balance sheet as at 31 December 2004. This is the third reporting year of the Bank. During the year the Bank has developed rapidly and has expanded the structure of its shareholders.

Type of operations

A/S Reģionālā investīciju banka is a credit institution aiming to service private persons and corporate clients, residents and non-residents.

Performance of the Bank during the reporting period

During 2004 the Bank draw particular attention to the improvements of its internal controls system. The Bank also improved and developed existing and new products.

The Bank's income is comprised mainly from commission and interest income where interest income slightly exceeds the commission income.

In the second half of 2004 the Bank significantly increased its loan portfolio. The Bank started issue of loans to non-residents with registration of collateral in Ukraine. The first syndicated loan was issued and financing of international trade was started. These deals increased profitability ratios of the Bank as interest rates exceeding 10% have been applied to these deals.

The Bank offered good loan conditions to its clients – non-residents, thus competing with other Latvian banks and attracting clients.

The Bank was also active in attracting financial resources to trust operations. The volume of these transactions has increased 4 times if compared to 2003.

In order to prevent legalisation of laundering of proceeds derived from criminal activity the Bank approved new anti-money laundering policy and implemented stronger requirements with respect to client identification.

Post balance sheet events

There have been no events subsequent to end of the reporting period that could materially affect the financial statements for the period ended 31 December 2004.

Future prospects

In 2005 the Bank plans a dynamic development, increase of business volumes, attraction of new clients. The Bank will expand the product range offered and continue implementation of new products. Particular attention will be paid to the quality of staff. The Bank plans in the nearest future to enlarge the office premises to provide successful development of the Bank. The Bank plans to issue its own credit cards.



Haralds Āboliņš
Chairman of the Board, President



Dmitrijs Bekkers
Chairman of the Council

Riga, 21 March 2005

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

THE COUNCIL AND THE BOARD OF THE BANK

As at 31 December 2004:

Date of appointment/
resignation

The Council

Dmitrijs Bekkers	Chairman of the Council	22.04.2003
Arkādijs Fjodorovs	Member of the Council	22.04.2003
Marks Bekkers	Member of the Council	25.03.2004
Jurijs Rodins	Member of the Council	25.03.2004
Alla Vanecjanc	Member of the Council	25.03.2004

Resigned during the year

Inna Kaidanova	Member of the Council	25.03.2004
Zoja Fainleib	Member of the Council	25.03.2004
Irēna Bauere	Member of the Council	25.03.2004

The Board

Haralds Āboliņš	Chairman of the Board and President	28.09.2001
Daiga Muravska	Member of the Board	25.03.2004
Oleksandr Kuperman	Member of the Board	24.07.2003

Resigned during the year

Jevgēnija Žagare	Member of the Board	25.03.2004
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STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of A/S “Reģionālā Investīciju banka” (the Bank) are responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 7 to 26 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2004 and the results of its operations and cash flows for the year ended 31 December 2004.

The 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 judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of A/S “Reģionālā investīciju banka” are responsible for the maintenance of proper accounting records, the safeguarding of the Bank’s assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission, Bank of Latvia and other legislation of the Republic of Latvia applicable for credit institutions.



Haralds Āboliņš
Chairman of the Board, President



Dmitrijs Bekkers
Chairman of the Council

Riga, 21 March 2005



PricewaterhouseCoopers SIA
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Latvija
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Facsimile +371 783 0055

AUDITORS' REPORT

To the shareholders of A/S Reģionālā Investīciju banka

We have audited the financial statements of A/S Reģionālā Investīciju banka for the year ended 31 December 2004 set out on pages 7 to 26. The audited financial statements include the balance sheet as of 31 December 2004, related income statement, statement of changes in equity and cash flow statement for the year then ended and note disclosure. These financial statements are the responsibility of A/S Reģionālā Investīciju banka management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants. Those Standards require that we plan and perform the audit 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. We read the management report set out on page 3 and did not identify material inconsistencies with the audited financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of A/S Reģionālā Investīciju banka as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Cameron G. Greaves
Chairman of the Board

Zlata Elksniņa-Zaščirinska
Certified auditor
Certificate No. 130

Rīga
21 March 2005

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 LVL	2003 LVL
Interest income	1	687,879	517,049
Interest expense	2	<u>(172,382)</u>	<u>(140,965)</u>
Net interest income		515,497	376,084
Fee and commission income	3	432,601	140,757
Fee and commission expense		<u>(85,322)</u>	<u>(30,229)</u>
Net fee and commission income		347,279	110,528
Net trading income	4	10,335	12,257
Other operating income		<u>3,413</u>	<u>16,601</u>
Operating income		876,524	515,470
Administrative expenses	5	(563,835)	(372,219)
Amortisation and depreciation charge	11, 12	(43,098)	(38,734)
Change in provisions for impairment on loans	9	<u>(14,007)</u>	<u>13,455</u>
Profit before income tax		255,584	117,972
Corporate income tax	6	<u>(33,800)</u>	<u>(22,531)</u>
Net profit for the year		<u>221,784</u>	<u>95,441</u>

The financial statements on pages 7 to 26 have been approved by the Council and the Board of the Bank and signed on their behalf by:



Haralds Āboliņš
Chairman of the Board, President



Dmitrijs Bekkers
Chairman of the Council

Riga, 21 March 2005


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


A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	31.12.2004 LVL	31.12.2003 LVL
<u>Assets</u>			
Cash and balances on demand with the Bank of Latvia	7	697,983	426,253
Due from other credit institutions	8	3,336,975	3,625,756
Loans and advances to customers	9	6,098,320	1,336,439
Trading securities	10	4,688,863	4,038,914
Intangible fixed assets	11	63,052	86,972
Property and equipment	12	90,043	65,747
Deferred tax asset	18	5,177	-
Other assets		35,088	7,898
Deferred expenses and accrued income	13	164,008	131,879
Total assets		<u>15,179,509</u>	<u>9,719,858</u>
<u>Liabilities</u>			
Due to other credit institutions	14	616,000	2,366,875
Deposits from the public	15	10,290,217	3,462,434
Other liabilities	16	141,080	29,920
Deferred income and accrued expense	17	91,936	33,790
Corporate income tax	28	20,948	24,360
Deferred tax liabilities	18	-	4,935
Total liabilities		<u>11,160,181</u>	<u>5,922,314</u>
<u>Shareholders' equity</u>			
Share capital	19	3,300,000	3,300,000
Retained earnings		497,544	402,103
Profit for the year		221,784	95,441
Total shareholders' equity		<u>4,019,328</u>	<u>3,797,544</u>
Total liabilities and shareholders' equity		<u>15,179,509</u>	<u>9,719,858</u>
<u>Memorandum items</u>			
Contingent liabilities	20	97,580	50,000
Commitments	20	1,578,662	825,591
Funds under trust management	20	26,642,769	5,494,163

The financial statements on pages 7 to 26 have been approved by the Council and the Board of the Bank and signed on their behalf by:


 Haralds Āboliņš
 Chairman of the Board, President


 Dmitrijs Bekkers
 Chairman of the Council

Riga, 21 March 2005

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

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Share capital	Retained earnings	Total shareholders ' equity
	LVL	LVL	LVL
Balance as at 31 December 2002	3,300,000	402,103	3,702,103
Profit for the period	-	95,441	95,441
Balance at 31 December 2003	3,300,000	497,544	3,797,544
Profit for the year	-	221,784	221,784
Balance at 31 December 2004	3,300,000	719,328	4,019,328

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

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 LVL	2003 LVL
Cash flows from operating activities			
Profit before income tax		255,584	117,972
Amortisation and depreciation of intangible and fixed assets		43,098	38,734
Increase/ (decrease) in provisions for impairment on loans		14,007	(13,945)
Loss from revaluation of trading securities		67,096	52,049
Increase in vacation accruals		11,631	12,783
Corporate income taxes paid	28	(22,964)	-
Cash flow from operating activities before changes in assets and liabilities		368,452	207,593
Increase in deferred income and accrued expense		51,268	5,852
(Increase) in prepayments and accrued income		(33,136)	(35,863)
(Increase)/decrease in other assets		(27,190)	2,000
Increase/(decrease) in other liabilities		82,047	(33,140)
(Increase)/decrease in trading securities		(717,045)	93,935
(Increase)/decrease in loans		(4,774,881)	487,154
Increase in deposits from the public		6,827,783	530,069
Net cash and cash equivalents from operating activities		1,777,298	1,257,600
Cash flows from investing activities			
Purchase of fixed and intangible assets		(43,474)	(16,271)
Net cash used in investing activities		(43,474)	(16,271)
Net increase in cash and cash equivalents		1,733,824	1,241,329
Cash and cash equivalents at the beginning of the year	21	1,685,134	443,805
Cash and cash equivalents at the end of the year	21	3,418,958	1,685,134

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 INCORPORATION AND PRINCIPAL ACTIVITIES

A/S Reģionālā Investīciju banka (hereinafter “the Bank”) was registered in Riga, Republic of Latvia on 28 September 2001. The Bank provides financial services to corporate clients and individuals. The Bank has no branches.

There are no publicly traded securities issued by the Bank.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Reporting currency

The accompanying financial statements are reported in lats (LVL) unless otherwise stated.

(b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention as modified by the revaluation of financial assets held for trading.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(c) Income and expense recognition

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on trading securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees and commissions related to trust activities are credited and/or charged to the income statement as earned/incurred.

(d) Foreign currency translation

Transactions denominated in foreign currencies are recorded in lats at actual rates of exchange set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

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

	31.12.2004 LVL	31.12.2003 LVL
USD	0.516	0.541
EUR	0.703	0.674
RUB	0.0186	0.0184

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Originated loans and provisions for loan impairment

Loans provided by the Bank directly to the borrower are categorised as loans originated by the Bank and are carried at amortised cost.

All loans and advances are recognised in the balance sheet when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the 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.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provisions for impairment on loans in the income statement.

(f) Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on bid prices quoted on stock exchange. In the absence of the active market, the fair value of trading securities is derived from the value of an instrument that is substantially the same. All related realised and unrealised 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.

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

(g) Sale and repurchase agreements of securities

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as trading securities and the counter party liability is included in balances due to other credit institutions. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

(h) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation. The decrease in value (amortisation) is included in the income statement in equal amounts over the useful life of the intangible asset that does not exceed five years.

(i) Property, Plant and Equipment

All property, plant and equipment is recorded at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Furniture and fittings	10 years
Computer equipment	5 years
Other fixed assets	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Maintenance and repair costs are charged to the income statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Operating lease

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(k) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Provision for employee holiday pay

The provision for employee holiday pay is estimated for the Bank's personnel based on the total number of holidays earned but not taken and average salary of employees including social security expense.

(m) Social security contributions

The Bank pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

(n) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds net of transaction costs incurred (fair value of consideration received). Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(o) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the Bank of Latvia and other credit institutions, and amounts due to other credit institutions.

(p) Off-balance sheet instruments

In the ordinary course of business, the Bank has been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances and financial guarantees. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

(q) Trust operations

Funds managed by the Bank on behalf of individuals and other institutions are not regarded as assets of the Bank and are accounted for as off-balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Trust operations (continued)

Accounting for trust operations is separated from the Bank's own accounting system thus ensuring separate accounting in a separate trust balance sheet for assets of each client, by client and by type of assets under management.

(r) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

(s) Comparatives

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

NOTE 3 FINANCIAL RISK MANAGEMENT

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency instruments, all of which are exposed to general and specific market movements.

Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank 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. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Actual exposures against limits are monitored regularly.

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.

Currency risk

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

The table in Note 25 summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2004.

Liquidity

The Bank is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan drawdowns. The Bank 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.

The table in Note 26 analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Interest rate risk

The Bank 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 sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is monitored regularly.

The table in Note 27 summarises the Bank's exposure to interest rate risks as at 31 December 2004.

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 INTEREST INCOME

	2004	2003
	LVL	LVL
Trading securities	273,216	306,623
Loans	260,840	103,492
Credit institutions	153,585	106,921
Other	238	13
	<u>687,879</u>	<u>517,049</u>

2 INTEREST EXPENSE

Credit institutions	22,887	19,529
Deposits	135,386	117,408
Other	14,109	4,028
	<u>172,382</u>	<u>140,965</u>

3 FEE AND COMMISSION INCOME

Money transfers	185,432	55,503
Trust activities	110,174	40,967
Commission on loans	74,417	34,027
Other	62,578	10,260
	<u>432,601</u>	<u>140,757</u>

4 NET TRADING INCOME

Gains from trading with securities	25,154	38,960
Loss from securities revaluation	(67,096)	(52,049)
Gain from trading with foreign currencies	147,901	63,448
Loss from foreign currency revaluation	(95,624)	(38,102)
	<u>10,335</u>	<u>12,257</u>

5 ADMINISTRATIVE EXPENSES

Remuneration paid to the members of the Council and the Board	93,482	53,877
Remuneration paid to personnel	182,425	116,764
Social security payments	65,329	39,012
Set-up and maintenance costs of information systems	14,652	13,677
Office rent and maintenance	73,492	49,318
Advertising and marketing	184	420
Consulting and professional fees	16,524	14,497
Sponsorship	8,149	3,938
Communication expense	61,007	44,738
Penalties	13	5,001
Other administrative expense	48,578	30,977
	<u>563,835</u>	<u>372,219</u>

The average number of staff employed by the Bank in 2004 was 29 (2003: 22).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 CORPORATE INCOME TAX

	2004	2003
	LVL	LVL
Corporate income tax for the reporting year	43,912	24,360
Increase/(decrease) of provision for deferred tax	<u>(10,112)</u>	<u>(1,829)</u>
Total corporate income tax	<u>33,800</u>	<u>22,531</u>

Corporate income tax differs from the theoretically calculated taxation at the 15% rate as stipulated by the law (see below):

Profit before tax	<u>255,584</u>	<u>117,972</u>
Tax calculated at 15% (2003: 19%)	38,338	22,415
Expenses not deductible for tax purposes	2,389	4,948
Tax discount for donations	(6,927)	-
Effect of different tax rates on expected reversals	<u>-</u>	<u>(4,832)</u>
Corporate income tax expense	<u>33,800</u>	<u>22,531</u>

Deferred tax is calculated by using currently enacted tax rate – 15%.

7 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2004	31.12.2003
	LVL	LVL
Cash	365,288	143,946
Balances on demand with the Bank of Latvia	<u>332,695</u>	<u>282,307</u>
	<u>697,983</u>	<u>426,253</u>

8 DUE FROM OTHER CREDIT INSTITUTIONS

Due from Republic of Latvia credit institutions	162,125	887,373
Due from non-OECD credit institution	608,074	812,033
Due from OECD credit institutions	<u>2,566,776</u>	<u>1,926,350</u>
	<u>3,336,975</u>	<u>3,625,756</u>

At 31 December 2004, the Bank had established correspondent relationships with 3 credit institutions registered in the OECD area, 5 credit institutions registered in Latvia and 2 credit institution incorporated in a non-OECD country. The largest placement with a single credit institution at the end of the period was LVL 1.7 million representing total outstanding balance held with a bank incorporated in OECD country. The effective interest rates during the reporting year were between 1.2% and 12.2%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by client type and by products

	31.12.2004	31.12.2003
	LVL	LVL
Loans to corporate entities:		
Mortgages	642,179	953,283
Corporate loans	3,958,966	336,040
Overdrafts	600,080	40,565
	<u>5,201,225</u>	<u>1,329,888</u>
Loans to individuals:		
Mortgages	375,721	5,551
Consumer loans	534,374	1,000
	<u>910,095</u>	<u>6,551</u>
	<u>6,111,320</u>	<u>1,336,439</u>
Less: provisions for loan impairment losses	(13,000)	-
	<u>6,098,320</u>	<u>1,336,439</u>

The effective interest rates during the reporting year were between 8% and 14%. 81% of loans are issued to non-residents.

(b) Analysis of loans by industry

Real estate	304,850	7,082
Trade	2,486,523	683,763
Manufacturing	645,000	-
Other	2,674,947	645,594
	<u>6,111,320</u>	<u>1,336,439</u>
Less: provisions for loan impairment losses	(13,000)	-
	<u>6,098,320</u>	<u>1,336,439</u>

Movements in provisions for impairment on loans and accrued income are as follows:

	Loans	Accrued income	Total
	LVL	LVL	LVL
At the beginning of the year	-	-	-
Increase during the year	13,000	1,007	14,007
At the end of the year	<u>13,000</u>	<u>1,007</u>	<u>14,007</u>

10 TRADING SECURITIES WITH FIXED INCOME

	31.12.2004	31.12.2003
	LVL	LVL
Latvian government securities	3,752,911	3,754,614
Non-OECD region government debt securities	725,052	-
Latvian corporate debt securities	210,900	284,300
	<u>4,688,863</u>	<u>4,038,914</u>

All securities were purchased for trading purposes and are carried at their fair value. Latvian government debt securities and Latvian corporate debt securities are listed on the Riga stock exchange. Latvian government debt securities with a nominal value LVL 625 thousand have been pledged to Bank of Latvia.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 INTANGIBLE FIXED ASSETS

	Software LVL	Advance payments LVL	Total LVL
Cost			
31.12.2003	128,793	-	128,793
Additions	701	1,231	1,932
31.12.2004	129,494	1,231	130,725
Depreciation			
31.12.2003	41,821	-	41,821
Charge for the year	25,852	-	25,852
31.12.2004	67,673	-	67,673
Net book value 31.12.2003	86,972	-	86,972
Net book value 31.12.2004	61,821	1,231	63,052

12 PROPERTY AND EQUIPMENT

	Computers LVL	Office equipment LVL	Total LVL
Cost			
31.12.2003	53,648	36,297	89,945
Additions	14,616	26,926	41,542
31.12.2004	68,264	63,223	131,487
Depreciation			
31.12.2003	17,007	7,191	24,198
Charge for 2004	11,751	5,495	17,246
31.12.2004	28,758	12,686	41,444
Net book value 31.12.2003	36,641	29,106	65,747
Net book value 31.12.2004	39,506	50,537	90,043

13 DEFERRED EXPENSES AND ACCRUED INCOME

	31.12.2004 LVL	31.12.2003 LVL
Accrued interest receivable from trading securities	127,768	-
Accrued interest receivable other	36,557	129,356
Deferred expenses	690	2,523
	165,015	131,879
Provisions for impairment losses	(1,007)	-
	164,008	131,879

14 DUE TO OTHER CREDIT INSTITUTIONS

Term deposit	516,000	-
Credit lines	100,000	-
Sale and repurchase ('repo') agreements	-	2,366,875
	616,000	2,366,875

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 DEPOSITS FROM THE PUBLIC

(a) Analysis of deposits by client type

	31.12.2004	31.12.2003
	LVL	LVL
Financial institutions	328,759	-
Private companies	6,988,024	2,613,651
Private individuals	2,854,718	736,127
Non-profit institutions	118,716	112,656
	<u>10,290,217</u>	<u>3,462,434</u>

(b) Analysis of deposits by geographical profile

Residents	2,416,760	2,444,296
Non-residents	7,873,457	1,018,138
	<u>10,290,217</u>	<u>3,462,434</u>

16 OTHER LIABILITIES

Settlements on behalf of a closed bank	11,656	16,852
Other liabilities	129,424	13,068
	<u>141,080</u>	<u>29,920</u>

17 DEFERRED INCOME AND ACCRUED EXPENSE

Accrued interest payable*	31,460	16,624
Accrued employee holiday pay*	28,797	17,166
Other accrued expenses	31,679	-
	<u>91,936</u>	<u>33,790</u>

* Accrued interest expense and accrual for holiday pay were classified as "Other liabilities" in 2003. Reclassification of comparatives have been made in 2004.

18 DEFERRED TAX

Deferred tax liability at the beginning of the year	4,935	6,764
Increase/(decrease) of deferred tax liability during the year	(10,112)	(1,829)
Deferred tax (asset) / liability at the end of the year	<u>(5,177)</u>	<u>4,935</u>

Deferred tax is calculated from the following temporary differences between the book values of the assets and liabilities and their tax calculation:

The temporary difference from fixed assets depreciation	9,208	7,510
The temporary difference from revaluation of investments in securities	(10,065)	-
The temporary difference from holiday pay	(4,320)	(2,575)
Total net deferred tax (asset) / liability	<u>(5,177)</u>	<u>4,935</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2004 was LVL 3,300,000. Share capital consists of 3,300,000 ordinary shares with the nominal value of LVL 1 per share of which 916,113 are shares with voting rights with the total nominal value of LVL 916,113 and 330 are shares assigned to the Board without voting rights with the total nominal value of LVL 330. On 25 March 2004 the Bank's shareholders changed and as at 31 December 2004 the Bank's shareholders were as follows:

	Number	Share (%)
Dmitrijs Bekkers	2,383,557	72.23
Marks Bekkers	440,000	13.33
Tamāra Rodina	198,470	6.01
Levons Vanecjancs	148,000	4.49
Jurijs Rodins	95,647	2.90
Alla Vanecjancs	33,996	1.03
Members of the Board	330	0.01
	<u>3,300,000</u>	<u>100</u>

As at the date of signing of these financial statements the Finance and Capital Market Commission had not given approval to Dmitrijs Bekkers, therefore these shares have no voting rights.

20 MEMORANDUM ITEMS

Contingent liability

The Bank has issued a guarantee on behalf of a Latvian company in the amount of LVL 65 thousand. This guarantee is secured by a pledge of Latvian government debt securities.

Commitments

The following table indicates the contractual amounts of the Bank's commitments to extend credit.

	31.12.2004 LVL	31.12.2003 LVL
Mortgage loans	-	811,500
Overdrafts	236,215	8,455
Credit lines	1,342,447	5,636
	<u>1,578,662</u>	<u>825,591</u>

Commitment under operating lease agreement

The Bank has entered into an operating lease agreement for its office premises. The lease agreement expires in November 2006. Annual lease payments under non-cancellable operating lease agreement amount to LVL 57.3 thousand.

Funds under trust management

Assets under trust

Loans	3,539,698	1,513,269
Placements of client resources	23,103,071	3,980,894
	<u>26,642,769</u>	<u>5,494,163</u>

Liabilities under trust

Private individuals	549,991	-
Private companies	26,092,778	5,494,163
	<u>26,642,769</u>	<u>5,494,163</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 CASH AND CASH EQUIVALENTS

	31.12.2004	31.12.2003
	LVL	LVL
Cash and balances on demand with the Bank of Latvia	697,983	426,253
Due from other credit institutions	3,336,975	3,625,756
Due to other credit institutions	(616,000)	(2,366,875)
	3,418,958	1,685,134

22 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

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

Transactions with related parties are carried out at market rates.

There are the following outstanding balances with related parties as at the end of the reporting year:

	31.12.2004	31.12.2003
	LVL	LVL
Deposits from the Board and Council members	-	1,500
Assets under trust from the shareholder	-	380,484

23 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In respect of financial assets and liabilities held in the balance sheet at carrying values other than fair value, in the opinion of Management the fair value of those financial assets and liabilities do not differ materially from their carrying values.

24 CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and market risks arising from the portfolio of assets of the Bank and the memorandum items exposure of the Bank.

The Bank's capital adequacy ratio based on the 1988 Basle Committee guidelines as at 31 December 2004 was 51.6%, which is above the minimum ratio recommended by the guidelines of 8%. In accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 48.3% (the required minimum is 8%).

The Financial and Capital Market Commission requirements are principally consistent with the Basle Committee guidelines and the European Union directives for the calculation of equity to be utilised in the capital adequacy ratio.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 CAPITAL ADEQUACY (continued)

Based on the requirements set by the Financial and Capital Market Commission, the Bank's equity to be utilised in the capital adequacy ratio as at 31 December 2004 has been calculated as follows:

	31.12.2004
	LVL
Tier 1	
- paid-in share capital	3,300,000
- retained profit	497,544
- profit of the year (not subject to dividend distribution)	221,784
Less	
- intangible assets (as defined by the Financial and Capital Market Commission)	(63,052)
Total Tier 1	<u>3,956,276</u>
Equity to be utilised for the capital adequacy calculation according to FCMC guidelines	<u>3,956,276</u>
Equity to be utilised for the capital adequacy calculation according to Basle Committee guidelines	<u>4,019,328</u>

The calculation of capital adequacy according to the Finance and Capital Market Commission requirements is presented in the following table (LVL'000):

	Assets	Risk	Risk
	31.12.2004	weighting	weighted
		%	assets
Balance sheet items			
Cash and balances with the Bank of Latvia	698	0%	-
Balances due from credit institutions within A zone countries	2,567	20%	513
Demand deposits with credit institutions within Latvia	136	20%	27
Term deposits with credit institutions within Latvia	26	50%	13
Deferred expenses and accrued income	164	50%	82
Balances due from credit institutions within B zone countries	608	100%	608
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	6,098	100%	6,098
Property and equipment	90	100%	90
Other assets	35	100%	35
Total assets	<u>10,422</u>		<u>7,466</u>
Memorandum items			
Credit commitments	1,579	0%	-
Outstanding guarantees with zero risk weighted	98	0%	-
Total assets and memorandum items for capital adequacy			<u>7,466</u>
Capital requirement for credit risk of banking book			591
Capital requirement for credit risk of trading book			137
Total capital requirement			<u>8,194</u>
Capital adequacy ratio			<u>48.3%</u>

Latvian government debt securities (LVL 3,753 thousand) and private companies debt securities (LVL 936 thousand) are included in the calculation of the credit risk of trading book.

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 CAPITAL ADEQUACY (continued)

The capital adequacy of the Group under the Basle agreement as of 31 December 2004 is calculated as follows (LVL'000):

	Assets as of 31.12.2004	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	698	0%	-
Balances due from credit institutions within OECD area	2,729	20%	546
Balances due from credit institutions within non-OECD area	608	20%	122
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	6,098	100%	6,098
Property and equipment	90	100%	90
Other assets	199	100%	199
Total assets	10,422		7,055
Memorandum items			
Credit commitments	1,579	0%	-
Outstanding guarantees with zero risk weighted	65	0%	-
Total assets and memorandum items for capital adequacy			7,055
Capital requirement for credit risk of banking book			591
Capital requirement for position risk of trading book			137
Total capital requirement			7,783
Capital adequacy ratio			51.6%

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 CURRENCY ANALYSIS

Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency as at 31 December 2004 (LVL'000).

	LVL	USD	EUR	Other	Total
<u>Assets</u>					
Cash and balances with the Bank of Latvia	520	162	15	1	698
Balances due from credit institutions	1	2,437	817	82	3,337
Loans and advances to non-banking customers	572	4,968	558	-	6,098
Trading securities	3,753	590	211	135	4,689
Intangible and fixed assets	153	-	-	-	153
Other assets	142	39	3	20	204
Total assets	5,141	8,196	1,604	238	15,179
<u>Liabilities</u>					
Balances due to credit institutions	100	516	-	-	616
Deposits from the public	833	7,927	1,520	10	10,290
Other liabilities	141	97	5	11	254
Total liabilities	1,074	8,540	1,525	21	11,160
Shareholders' equity	4,019	-	-	-	4,019
Total shareholders' equity and liabilities	5,093	8,540	1,525	21	15,179
<u>Memorandum items</u>	132	978	567	-	1,677
Net position	48	(344)	79	217	
As at 31 December 2003					
Total assets	5,376	3,829	494	21	9,720
Total equity and liabilities	5,458	3,792	467	3	9,720
Memorandum items	59	817	-	-	876
Net position	(82)	37	27	18	

As of 31 December 2004, 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, and that the total foreign currency open position may not exceed 20% of the Bank's equity.

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the time remaining from the balance sheet date to the contractual maturity date (LVL'000).

	On demand	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 – 5 years	Over 5 years and undated	Total
Assets								
Cash and deposits with the Bank of Latvia	698	-	-	-	-	-	-	698
Balances due from credit institutions	2,743	516	52	26	-	-	-	3,337
Loans and advances to non-banking customers	600	329	770	174	822	3,240	163	6,098
Trading securities	4,689	-	-	-	-	-	-	4,689
Intangible and fixed assets	-	-	-	-	-	-	153	153
Other assets	21	99	52	9	8	-	15	204
Total assets	8,751	944	874	209	830	3,240	331	15,179
Liabilities								
Balances due to credit institutions	-	100	-	516	-	-	-	616
Deposits from the public	7,171	629	353	219	1,377	212	329	10,290
Other liabilities	164	50	40	-	-	-	-	254
Total liabilities	7,335	779	393	735	1,377	212	329	11,160
Shareholders' equity	-	-	-	-	-	-	4,019	4,019
Total equity and liabilities	7,335	779	393	735	1,377	212	4,348	15,179
Memorandum items	1,579	-	-	-	-	98	-	1,677
Net liquidity gap	1,416	165	481	(526)	(547)	3,028	(4,017)	
31 December 2003								
Total assets	3,323	1,490	-	361	340	3,216	990	9,720
Total equity and liabilities	3,474	628	654	641	163	18	4,142	9,720
Memorandum items	826	-	-	-	-	50	-	876
Net liquidity gap	(151)	862	(654)	(280)	177	3,198	(3,152)	

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2004 (LVL'000).

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non- interest bearing	Total
Assets								
Cash and deposits with the Bank of Latvia	-	-	-	-	-	-	698	698
Balances due from credit institutions	516	52	26	-	-	-	2,743	3,337
Loans and advances to non-banking customers	929	770	174	822	3,240	163	-	6,098
Trading securities	-	-	-	-	4,048	641	-	4,689
Intangible and fixed assets	-	-	-	-	-	-	153	153
Other assets	-	-	-	-	-	-	204	204
Total assets	1,445	822	200	822	7,288	804	3,798	15,179
Liabilities								
Balances due to credit institutions	100	-	516	-	-	-	-	616
Deposits from the public	7,800	353	219	1,377	212	329	-	10,290
Other liabilities	-	-	-	-	-	-	254	254
Total liabilities	7,900	353	735	1,377	212	329	254	11,160
Shareholders' equity	-	-	-	-	-	-	4,019	4,019
Total equity and liabilities	7,900	353	735	1,377	212	329	4,273	15,179
Memorandum items	1,579	-	-	-	98	-	-	1,677
Net interest sensitivity gap	(6,455)	469	(535)	(555)	7,076	475	(475)	
31 December 2003								
Total assets	4,255	-	-	700	3,211	835	719	9,720
Total equity and liabilities	4,054	659	3	724	68	321	3,891	9,720
Memorandum items	826	-	-	-	50	-	-	876
Net interest sensitivity gap	201	(659)	(3)	(24)	3,143	514	(3,172)	

28 TAXES

	Calculated in 2004 LVL	Paid in 2004 LVL	Balance 31.12.2004 LVL
Corporate income tax (see Note 6)	43,912	(22,964)	20,948
Social insurance contributions	87,140	(87,140)	-
Personal income tax	58,980	(58,980)	-
	190,032	(169,084)	20,948