

**A/S REĢIONĀLĀ
INVESTĪCIJU BANKA**

**ANNUAL REPORT FOR THE YEAR
ENDED 31 DECEMBER 2003**



INVESTĪCIJU BANKA
A/S REĢIONĀLĀ INVESTĪCIJU BANKA

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ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

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A/S Reģionālā Investīciju banka

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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 2003. This is the second reporting year of the Bank. During the year 2003 important changes in the shareholders of the Bank have occurred – on 25 April 2003 Dmitrijs Bekkers became the exclusive shareholder of the Bank.

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 2003 the Bank made substantial improvements of its internal controls system and developed new products. The Bank ended the reporting year with a profit, mainly from trading securities, transaction commissions and trust operations. The number of the Bank's customers and transactions made increased during the reporting year. Many non-residents became customers of the Bank, using settlement of accounts services. In the result, the Bank introduced new service – documentary operations. The Bank increased the types and volumes of trust operations, reaching trust portfolio in the amount of LVL 5 million.

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 2003.

Future prospects

In 2004 the Bank plans to work on introduction of new products for customers, attract new staff members and enlarge the office premises to provide successful development of the Bank. The Bank will offer credit card products to its customers and will substantially increase its loan portfolio to make the Bank's operations more effective.

Haralds Āboliņš
Chairman of the Board, President

Dmitrijs Bekkers
Chairman of the Council

Riga, 17 March 2004

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
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THE COUNCIL AND THE BOARD OF THE BANK

As at 31 December 2003:

Date of appointment/
resignation

The Council

Dmitrijs Bekkers	Chairman of the Council	22.04.2003
Arkādijs Fjodorovs	Member of the Council	22.04.2003
Inna Kaidanova	Member of the Council	24.07.2003
Zoja Fainleib	Member of the Council	15.05.2003
Irēna Bauere	Member of the Council	28.09.2001
Oleksandr Kuperman	Member of the Council	24.07.2003

Resigned during the year

Jānis Medens	Chairman of the Council	24.07.2003
Jānis Cimdiņš	Member of the Council	24.07.2003
Daila Vīksne	Member of the Council	24.07.2003
Kārlis Uzuliņš	Member of the Council	24.07.2003
Vadims Marahovskis	Member of the Council	15.05.2003
Oleksandr Kuperman	Member of the Council	24.07.2003

The Board

Haralds Āboliņš	Chairman of the Board and President	28.09.2001
Jevgēņija Žagare	Member of the Board	13.12.2001
Oleksandr Kuperman	Member of the Board	24.07.2003

Resigned during the year

Māra Zepa	Member of the Board	24.07.2003
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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 25 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2003 and the results of its operations and cash flows for the year ended 31 December 2003.

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, 17 March 2004



PricewaterhouseCoopers SIA
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Latvija
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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 2003 set out on pages 7 to 25. The audited financial statements include the balance sheet as of 31 December 2003, 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, as referred to on page 5. 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 verified that, in all material respects, the management report is consistent with the 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 2003, 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
Personal ID: 050747-14659
Chairman of the Board

Zlata Elksniņa-Zaščirinska
Personal ID: 190873-10108
Certified auditor
Certificate No. 130

17 March 2004

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	2003 LVL	15 months 2002 LVL
Interest income	1	517,049	529,896
Interest expense	2	<u>(140,965)</u>	<u>(144,651)</u>
Net interest income		376,084	385,245
Fee and commission income		140,757	16,754
Fee and commission expense		<u>(30,229)</u>	<u>(6,160)</u>
Net fee and commission income		110,528	10,594
Income from securities		-	12,269
Net gain from operations with foreign currency and trading securities	3	12,257	403,390
Other operating income		<u>16,601</u>	<u>1,877</u>
Operating income		515,470	813,375
Administrative expenses	4	(372,219)	(363,278)
Amortisation and depreciation charge	10, 11	(38,734)	(27,285)
Change in provisions for impairment on loans	8	<u>13,455</u>	<u>(13,945)</u>
Profit before income tax		117,972	408,867
Corporate income tax	5	<u>(22,531)</u>	<u>(6,764)</u>
Net profit for the year		<u>95,441</u>	<u>402,103</u>

The financial statements on pages 7 to 25 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, 17 March 2004

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

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2003


BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	31.12.2003 LVL	31.12.2002 LVL
<u>Assets</u>			
Cash and balances on demand with the Bank of Latvia	6	426,253	109,050
Due from other credit institutions	7	3,625,756	1,314,855
Loans and advances to customers	8	1,336,439	1,809,648
Trading securities with fixed income	9	4,038,914	3,967,779
Trading securities with variable income		-	217,119
Intangible fixed assets	10	86,972	105,780
Property and equipment	11	65,747	69,402
Other assets		7,898	9,898
Prepayments and accrued income	12	131,879	96,016
Total assets		<u>9,719,858</u>	<u>7,699,547</u>
<u>Liabilities</u>			
Due to other credit institutions	13	2,366,875	980,100
Deposits from the public	14	3,462,434	2,932,365
Other liabilities	15	63,710	59,707
Deferred income and accrued expense		24,360	18,508
Deferred tax liabilities	16	4,935	6,764
Total liabilities		<u>5,922,314</u>	<u>3,997,444</u>
<u>Shareholders' equity</u>			
Share capital	17	3,300,000	3,300,000
Retained earnings		402,103	-
Profit for the year		95,441	402,103
Total shareholders' equity		<u>3,797,544</u>	<u>3,702,103</u>
Total liabilities and shareholders' equity		<u>9,719,858</u>	<u>7,699,547</u>
<u>Memorandum items</u>			
Contingent liabilities	18	50,000	55,000
Commitments	18	825,591	39,818
Funds under trust management	18	5,494,163	110,100

The financial statements on pages 7 to 25 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, 17 March 2004

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

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

	Share capital	Share premium	Retained earnings	Total shareholders' equity
	LVL	LVL	LVL	LVL
Closed share issue	3,000,000	300,000	-	3,300,000
Closed share issue	300,000	(300,000)	-	-
Profit for the period	-	-	402,103	402,103
Balance at 31 December 2002	3,300,000	-	402,103	3,702,103
Profit for the year	-	-	95,441	95,441
Balance at 31 December 2003	3,300,000	-	497,544	3,797,544

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

A/S REĢIONĀLĀ INVESTĪCIJU BANKA
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**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	2003 LVL	15 months 2002 LVL
Cash flows from operating activities			
Profit before income tax		117,972	408,867
Amortisation and depreciation of intangible and fixed assets		38,734	27,285
Increase/ (decrease) in provisions for impairment on loans		(13,945)	13,945
Increase in vacation accruals		12,783	-
Cash flow for operating activities before changes in assets and liabilities		155,544	450,097
Increase in deferred income and accrued expense		5,852	18,508
(Increase) in prepayments and accrued income		(35,863)	(96,016)
(Increase)/decrease in other assets		2,000	(9,898)
Increase/(decrease) in other liabilities		(33,140)	35,379
(Increase)/decrease in trading securities		145,984	(4,184,898)
(Increase)/decrease in loans		487,154	(1,823,593)
Increase in deposits from the public		530,069	2,932,365
Net cash and cash equivalents from operating activities		1,257,600	(2,678,056)
Cash flows from investing activities			
Purchase of fixed and intangible assets		(16,271)	(178,139)
Net cash used in investing activities		(16,271)	(178,139)
Cash flows from financing activities			
Issue of share capital		-	3,300,000
Net cash from financing activities		-	3,300,000
Net increase in cash and cash equivalents		1,241,329	443,805
Cash and cash equivalents at the beginning of the year	19	443,805	-
Cash and cash equivalents at the end of the year	19	1,685,134	443,805

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 yield method based on the actual purchase price. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Foreign currency translation (continued)

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:

	31.12.2003	31.12.2002
	LVL	LVL
USD	0.541	0.594
EUR	0.674	0.610
RUB	0.0184	0.0187
NOK	0.0798	0.084
CHF	0.432	0.419
GBP	0.96	0.946
JPY	0.506	0.494
SEK	0.074	0.0668

(e) Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower are categorised as loans originated by the Bank and are carried at amortised cost. Amortised cost is the amount at which the loans were measured at initial recognition minus principal repayments, and minus any write-down for impairment or uncollectability.

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

A 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 listed securities. In the absence of the active market, the fair value of available-for-sale investments 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 yield method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation. Since these are Bank's long-term investments, 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.

(j) Operating lease

To date, 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) 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.

(n) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

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.

(p) 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. Where in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

(q) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 INTEREST INCOME

	2003	15 months
	LVL	2002
		LVL
Trading securities	306,623	430,779
Loans	103,492	65,251
Credit institutions	106,921	33,663
Other	13	203
	<u>517,049</u>	<u>529,896</u>

2 INTEREST EXPENSE

Credit institutions	19,529	91,117
Deposits	117,408	51,114
Other	4,028	2,420
	<u>140,965</u>	<u>144,651</u>

3 NET GAIN FROM OPERATIONS WITH FOREIGN CURRENCY AND TRADING SECURITIES

Gains from trading with securities	38,960	278,456
Profit/(loss) from securities revaluation	(52,049)	111,360
Gain from operations with foreign currencies	63,448	10,486
Profit/(loss) from foreign currency revaluation	(38,102)	3,088
	<u>12,257</u>	<u>403,390</u>

4 ADMINISTRATIVE EXPENSES

Remuneration paid to the members of the Council and the Board	53,877	30,812
Remuneration paid to personnel	116,764	54,330
Social security payments	39,012	22,143
Set-up and maintenance costs of information systems	13,677	86,217
Office rent and maintenance	49,318	37,399
Advertising and marketing	420	31,567
Consulting and professional fees	14,497	25,571
Sponsorship	3,938	25,000
Communication expense	44,738	20,593
Penalties	5,001	-
Other administrative expense	30,977	29,646
	<u>372,219</u>	<u>363,278</u>

The average number of staff employed by the Bank in 2003 was 22 (2002: 14).

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 CORPORATE INCOME TAX

	2003	15 months 2002
	LVL	LVL
Corporate income tax for the reporting year	24,360	-
Increase/(decrease) of provision for deferred tax	(1,829)	6,764
Total corporate income tax	<u>22,531</u>	<u>6,764</u>

Corporate income tax differs from the theoretically calculated taxation at the 19% rate as stipulated by the law (see below):

Profit before tax	<u>117,972</u>	<u>408,867</u>
Tax calculated at 19% (2002: 22%)	22,415	102,217
Expenses not deductible for tax purposes	2,446	6,667
Revaluation of balance sheet items	9,889	(28,389)
Income not subject to tax	(7,387)	(69,324)
Effect of different tax rates on expected reversals	(4,832)	(4,407)
Corporate income tax expense	<u>22,531</u>	<u>6,764</u>

Deferred tax is calculated by using the following tax rates:

Year	Rate
2003	19%
2004 and thereafter	15%

6 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2003	31.12.2002
	LVL	LVL
Cash	143,946	40,791
Balances on demand with the Bank of Latvia	282,307	68,259
	<u>426,253</u>	<u>109,050</u>

7 DUE FROM OTHER CREDIT INSTITUTIONS

Due from Republic of Latvia credit institutions	887,373	941,653
Due from non-OECD credit institution	812,033	297,000
Due from OECD credit institutions	1,926,350	76,202
	<u>3,625,756</u>	<u>1,314,855</u>

At 31 December 2003, the Bank had established correspondent relationships with 4 credit institutions registered in the OECD area, 5 credit institutions registered in Latvia and 1 credit institution incorporated in a non-OECD country. The largest placement with a single credit institution at the end of the period was LVL 1.6 million representing total outstanding balance held with a bank incorporated in OECD country. The effective interest rates during the reporting year were between 1.18% and 9.5%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 LOANS AND ADVANCES TO CUSTOMERS

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

	31.12.2003 LVL	31.12.2002 LVL
Loans to corporate entities:		
Mortgages	953,283	732,588
Corporate loans	336,040	433,807
Overdrafts	40,565	64,407
Loans to individuals:		
Mortgages	5,551	423,010
Consumer loans	1,000	169,781
	<u>1,336,439</u>	<u>1,823,593</u>
Specific provisions	-	(13,945)
	<u>1,336,439</u>	<u>1,809,648</u>

At 31 December 2003 the top three borrowers represented 95% of the total loan portfolio. The effective interest rates during the reporting year were between 8% and 12%.

(b) Analysis of loans by industry

Real estate	7,082	646,600
Trade	683,763	388,272
Manufacturing	-	82,065
Other	645,594	706,656
	<u>1,336,439</u>	<u>1,823,593</u>
Specific provisions	-	(13,945)
	<u>1,336,439</u>	<u>1,809,648</u>

Movements in provisions for impairment on loans are as follows:

At the beginning of the year	13,945	-
Increase/(decrease) during the year	(13,455)	13,945
Foreign exchange rate differences	(490)	-
At the end of the year	<u>-</u>	<u>13,945</u>

9 TRADING SECURITIES WITH FIXED INCOME

Latvian government securities	3,754,614	2,792,479
Non-OECD region corporate debt securities	-	891,000
Latvian corporate debt securities	284,300	284,300
	<u>4,038,914</u>	<u>3,967,779</u>

All securities were purchased for trading purposes and are carried at their fair value. Latvian government debt securities with a net book value of LVL 2,487 thousand as at 31 December 2003 are subject to repurchase agreements (see also note 13). Latvian government debt securities are listed on the Riga stock exchange. Other securities are not listed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 INTANGIBLE FIXED ASSETS

	Software LVL
Cost	
31.12.2002	122,874
Additions	5,919
31.12.2003	<u>128,793</u>
Depreciation	
31.12.2002	17,094
Charge for the year	24,727
31.12.2003	<u>41,821</u>
Net book value 31.12.2003	<u>86,972</u>
Net book value 31.12.2002	<u>105,780</u>

11 PROPERTY AND EQUIPMENT

	Computers LVL	Office inventory LVL	Total LVL
Cost			
31.12.2002	44,986	34,607	79,593
Additions	8,662	1,690	10,352
31.12.2003	<u>53,648</u>	<u>36,297</u>	<u>89,945</u>
Depreciation			
31.12.2002	7,374	2,817	10,191
Charge for 2003	9,633	4,374	14,007
31.12.2003	<u>17,007</u>	<u>7,191</u>	<u>24,198</u>
Net book value 31.12.2003	<u>36,641</u>	<u>29,106</u>	<u>65,747</u>
Net book value 31.12.2002	<u>37,612</u>	<u>31,790</u>	<u>69,402</u>

12 PREPAYMENTS AND ACCRUED INCOME

	31.12.2003 LVL	31.12.2002 LVL
Deferred expense	2,523	1,539
Accrued interest receivable	129,356	94,477
	<u>131,879</u>	<u>96,016</u>

13 DUE TO OTHER CREDIT INSTITUTIONS

Credit lines	-	504,900
Sale and repurchase ('repo') agreements	2,366,875	475,200
	<u>2,366,875</u>	<u>980,100</u>

Annual interest rate on sale and repurchase agreements as at 31 December 2003 is approximately 1.3%. All liabilities are payable in January 2004. See also note 9.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 DEPOSITS FROM THE PUBLIC

(a) Analysis of deposits by client type

	31.12.2003	31.12.2002
	LVL	LVL
Private companies	2,613,651	1,487,455
Private individuals	736,127	1,430,765
Non-profit institutions	112,656	14,145
	<u>3,462,434</u>	<u>2,932,365</u>

(b) Analysis of deposits by geographical profile

Residents	3,444,296	2,796,987
Non-residents	1,018,138	135,378
	<u>3,462,434</u>	<u>2,932,365</u>

15 OTHER LIABILITIES

Amounts due for intangible assets acquired	-	24,328
Settlements on behalf of a closed bank	16,852	16,852
Accrued expense	16,624	11,437
Accrued employee holiday pay	17,166	4,383
Other liabilities	13,068	2,707
	<u>63,710</u>	<u>59,707</u>

16 DEFERRED TAX LIABILITIES

Deferred tax liability at the beginning of the year	6,764	-
Increase/(decrease) of deferred tax liability during the year	(1,829)	6,764
Deferred tax liability at the end of the year	<u>4,935</u>	<u>6,764</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	2,360	7,105
The temporary difference from revaluation of investments in securities	-	1,914
Tax loss carried forward	-	(1,422)
The temporary difference from holiday pay	2,575	(833)
Total net deferred tax liability	<u>4,935</u>	<u>6,764</u>

17 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2003 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 3,299,670 are shares with voting rights with the total nominal value of LVL 3,299,670 and 330 are shares assigned to the Board without voting rights with the total nominal value of LVL 330. On 25 April 2003 the Bank's shareholders changed and as at 31 December 2003 the Bank's shareholders were as follows:

	Number	Share
Dmitrijs Bekkers	3,299,670	99.99%
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 the new shareholder.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 MEMORANDUM ITEMS

Contingent liability

The Bank has issued a guarantee on behalf of a Latvian company in the amount of LVL 50 thousand. This guarantee is secured by a pledge of Latvian government debt securities with the market value of LVL 57.6 thousand as at 31 December 2003.

Commitments

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

	31.12.2003	31.12.2002
	LVL	LVL
Mortgage loans	811,500	25,000
Overdrafts	8,455	1,690
Credit lines	5,636	13,128
	<u>825,591</u>	<u>39,818</u>

Commitment under operating lease agreement

The Bank has entered into an operating lease agreement for its office premises. The future aggregate minimum lease payments under non-cancellable operating lease agreement due with less than one-year amount to LVL 41.5 thousand.

Funds under trust management

Assets under trust

Loans	1,513,269	110,100
Placements of client resources	3,980,894	-
	<u>5,494,163</u>	<u>110,100</u>

Liabilities under trust

Credit institutions	-	110,100
Private companies	5,494,163	-
	<u>5,494,163</u>	<u>110,100</u>

19 CASH AND CASH EQUIVALENTS

Cash and balances with the Bank of Latvia	426,253	109,050
Due from other credit institutions	3,625,756	1,314,855
Due to other credit institutions	(2,366,875)	(980,100)
	<u>1,685,134</u>	<u>443,805</u>

20 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 RELATED PARTY TRANSACTIONS (continued)

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

	31.12.2003	31.12.2002
	LVL	LVL
Deposits from the Board and Council members	1,500	237,478
Assets under trust from the shareholder	380,484	-

21 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 2003 was 131.09%, 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 145.4% (the required minimum is 10%).

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. Based on these 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 2003 has been calculated as follows:

	31.12.2003
	LVL
Tier 1	
- paid-in share capital	3,300,000
- retained profit	402,103
- profit of the year (not subject to dividend distribution)	95,441
Less	
- intangible assets (as defined by the Financial and Capital Market Commission)	(86,972)
Total Tier 1	3,710,572
Equity to be utilised for the capital adequacy calculation according to FCMC guidelines	3,710,572
Equity to be utilised for the capital adequacy calculation according to Basle Committee guidelines	3,797,544

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 CAPITAL ADEQUACY (continued)

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

	Assets 31.12.2003	Risk weighting %	Risk weighted assets
Balance sheet items			
Cash and balances with the Bank of Latvia	426	0%	-
Balances secured by Latvian government securities	629	0%	-
Balances due from credit institutions within A zone countries	1,926	20%	385
Demand deposits with credit institutions within Latvia	76	20%	15
Term deposits with credit institutions within Latvia	812	50%	406
Prepayments and accrued income	132	0%	66
Balances due from credit institutions within B zone countries	812	100%	812
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	707	100%	707
Property and equipment	66	100%	66
Other assets	8	100%	8
Total assets	5,594		2,465
Memorandum items			
Credit commitments	812	0%	-
Outstanding guarantees with zero risk weighted	50	0%	-
Total assets and memorandum items for capital adequacy			2,465
Capital requirement for credit risk of banking book			247
Capital requirement for credit risk of trading book			117
Capital requirement for foreign currency exchange risk			1
Total capital requirement			2,830
Capital adequacy ratio			131.09%

Latvian government debt securities (LVL 3,868 thousand) and private companies debt securities (LVL 285 thousand) are included in the calculation of the credit risk of trading book.

The capital adequacy of the Group under the Basle agreement as of 31 December 2003 is calculated as follows (LVL'000):

	Assets as of 31.12.2003	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	426	0%	-
Balances due from credit institutions within OECD area	1,926	20%	385
Balances due from credit institutions within non-OECD area	1,700	20%	340
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	1,336	100%	1,336
Property and equipment	66	100%	66
Other assets	140	100%	140
Total assets	5,594		2,267
Memorandum items			
Credit commitments	812	0%	-
Outstanding guarantees with zero risk weighted	50	0%	-
Total assets and memorandum items for capital adequacy			2,267
Capital requirement for credit risk of banking book			227
Capital requirement for position risk of trading book			117
Total capital requirement			2,611
Capital adequacy ratio			145.4%

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 FINANCIAL RISK MANAGEMENT

Financial instruments

By its nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at fixed rates and for various periods and seeks to earn above average interest margins by investing these funds in a high quality assets. The Bank 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 Bank 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 debt securities markets. The Board places trading limits on the level of exposure that can be taken.

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 below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2003. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency (LVL'000).

	LVL	USD	EUR	Other	Total
<u>Assets</u>					
Cash and balances with the Bank of Latvia	367	42	17	-	426
Balances due from credit institutions	1	3,392	219	14	3,626
Loans and advances to non-banking customers	691	389	256	-	1,336
Trading securities	4,039	-	-	-	4,039
Intangible and fixed assets	153	-	-	-	153
Other assets	125	6	2	7	140
Total assets	5,376	3,829	494	21	9,720
<u>Liabilities</u>					
Balances due to credit institutions	-	2,367	-	-	2,367
Deposits from the public	1,583	1,415	461	3	3,462
Other liabilities	54	10	6	-	70
Total liabilities	1,637	3,792	467	3	5,899
Shareholders' equity	3,821	-	-	-	3,821
Total shareholders' equity and liabilities	5,458	3,792	467	3	9,720
<u>Memorandum items</u>	59	817	-	-	876
Net position	(82)	37	27	18	
As at 31 December 2002					
Total assets	4,989	2,426	284	1	7,700
Total equity and liabilities	4,966	2,438	296	-	7,700
Memorandum items	95	-	-	-	95
Net position	(72)	(12)	(12)	1	

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 FINANCIAL RISK MANAGEMENT (continued)

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.

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. The Board sets limits on the value of risk that may be accepted, which is monitored regularly.

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 below 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 (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	426	-	-	-	-	-	-	426
Balances due from credit institutions	2,814	812	-	-	-	-	-	3,626
Loans and advances to non-banking customers	-	629	-	361	340	6	-	1,336
Trading securities	-	-	-	-	-	3,210	829	4,039
Intangible and fixed assets	-	-	-	-	-	-	153	153
Other assets	83	49	-	-	-	-	8	140
Total assets	3,323	1,490	-	361	340	3,216	990	9,720
Liabilities								
Balances due to credit institutions	2,367	-	-	-	-	-	-	2,367
Deposits from the public	1,088	609	654	641	131	18	321	3,462
Other liabilities	19	19	-	-	32	-	-	70
Total liabilities	3,474	628	654	641	163	18	321	5,899
Shareholders' equity	-	-	-	-	-	-	3,821	3,821
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)	

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 FINANCIAL RISK MANAGEMENT (continued)

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 repricing that may be undertaken, which is monitored regularly.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets, liabilities and memorandum items at carrying amounts, categorised by the earlier of contractual repricing or maturity dates (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	-	-	-	-	-	-	426	426
Balances due from credit institutions	3,626	-	-	-	-	-	-	3,626
Loans and advances to non-banking customers	629	-	-	700	1	6	-	1,336
Trading securities	-	-	-	-	3,210	829	-	4,039
Intangible and fixed assets	-	-	-	-	-	-	153	153
Other assets	-	-	-	-	-	-	140	140
Total assets	4,255	-	-	700	3,211	835	719	9,720
Liabilities								
Balances due to credit institutions	2,367	-	-	-	-	-	-	2,367
Deposits from the public	1,687	659	3	724	68	321	-	3,462
Other liabilities	-	-	-	-	-	-	70	70
Total liabilities	4,054	659	3	724	68	321	70	5,899
Shareholders' equity	-	-	-	-	-	-	3,821	3,821
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)	

23 TAXES

	Calculated in 2003 LVL	Paid in 2003 LVL	Balance 31.12.2003 LVL
Corporate income tax (see Note 5)	24,360	-	24,360
Social insurance contributions	50,179	(50,179)	-
Personal income tax	35,655	(35,655)	-
	110,194	(85,834)	24,360