RIETUMU BANK GROUP

Consolidated and Bank Financial Statements
and Auditor's Report
for the year ended 31 December 2002

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MANAGEMENT COMMENTARY

Operating and financial review

The year 2002 marked the 10-year anniversary of Rietumu Banka and the year 2002 was very successful and promising from an operational and strategic viewpoint. In most aspects the Bank's financial performance are 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.

Operating results

During 2002, the Bank launched various new products and continued to improve customer service. The Bank focused especially on Customer Relationship Management where various programs to improve our service to corporate customers were developed. We followed separate approaches in Customer Relationship Management for customers from Latvia and customers from outside Latvia. The Customer Relationship Management was enhanced by a separate CRM Department as well as improving product and services of the Bank as a whole.

During 2002, the Bank opened one new branch in Riga, the "Mukusalas Branch". The Bank now has 11 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 St. Petersburg, Russia and Kishinev, Moldova. In addition to the two representative offices opened in 2002, the Bank has representative offices in Moscow, Kiev, Minsk and Almata.

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 developed and implemented an unsecured overdraft product to existing customers that have significant and regular turnover with the Bank. During the second half of 2002, the Bank launched a program of crediting small to medium sized enterprises. This program was backed by a EUR 5 million credit facility received from the European Bank for Reconstruction and Development for development of the SME sector in Latvia. In addition to the credit facility the Bank is receiving technical support of EUR 0.5 million from the European Union.

During 2002, the Bank initiated an active campaign for mortgage loans to private persons. The mortgage program is continuing during 2003 and the Bank is planning various mortgage related programs during 2003. With the developments within the credit area during 2002, the Bank has positioned itself to offer a very competitive lending service to its customers, while maintaining the overall objective of conservative growth.

During 2002, the Bank was the first Bank in the Baltic States to offer Visa Platinum and Mastercard Platinum cards to its customers. Additionally, the Bank initiated a program of upgrading its Point of Sale terminals in anticipation of Chip card technologies. The Bank has also made significant investments in upgrading its ATM network.

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 2002 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. The Bank has a compliance action plan implemented for 2003 that we are confident we will meet.

In November 2001, the Bank purchased Equation banking software from Misys PLC. Equation will replace the existing internally developed system. Implementation of Equation has been in progress throughout 2002 and almost all departments have been involved in the implementation of Equation. The Bank plans to start working in a live environment in the summer of 2003.

Financial results

	2002	2001	2000
At year end (Ls'000)			
Total assets	377,912	285,415	153,101
Loans and advances to customers	92,033	52,354	35,255
Other interest earning assets	251,909	203,906	100,723
Due to customers	343,132	258,171	137,097
Total shareholders' equity	24,443	18,706	10,723
For the year (Ls'000)			
Net profit before tax	7,068	6,311	4,473
Net profit after tax	5,511	6,338	4,448
Operating income	20,600	18,652	8,746
Ratios			
Earnings per share (Ls)			
After tax	0.272	0.328	0.257
Before tax	0.346	0.316	0.256
Dividend per share (Ls)	0.072*	0.050	-
Dividend growth	44%*	100%	-
Capital adequacy			
Basle	12.5%	12.1%	19.3%
Financial & Capital Markets Commission	13.15%	11.6%	16.2%
Return on equity			
Before tax	32.8%	42.9%	52.6%
After tax	25.5%	43.1%	52.3%
Return on assets			
Before tax	2.1%	2.9%	3.3%
After tax	1.7%	2.9%	3.3%
Profit margin (before tax)	34.3%	33.8%	51.1%
Number of employees	544	496	327

* *proposed*

During 2002, total assets grew to Ls 378 millions from Ls 285 millions in 2001. This represents a growth of 33%. Due to customers increased by 33% from Ls 258 millions in 2001 to Ls 343 millions in 2002. Current accounts and term deposits were Ls 303 millions and Ls 40 millions respectively (2001: Ls 214 millions and Ls 44 millions respectively).

The Bank's group net profit before tax was Ls 7,027 thousands (2001: Ls 6,308 thousands) representing an increase of Ls 719 thousands. Included in these results is the Bank's brokerage subsidiary, RB Securities Group that has had a record year with after tax profits of Ls 1,086 thousands (2001: Ls 891 thousand). Funds under management were Ls 74,864 thousands (2001: Ls 78,860 thousands). Total shareholders equity increased from Ls 18,7 million in 2001 to Ls 24,4 million in 2002.

During 2002, the Bank paid its first dividend in its history and this marked another significant milestone in the Bank's development. A dividend of Ls 1,010,000 was paid in April 2002. The proposed dividend for 2002 is calculated after the Bank's management forecasts that the Group can maintain a consolidated capital adequacy ratio of at least 10% and comply with all norms of the Financial and Capital Markets Commission regulations for the financial year following the dividend payment. It is the intention of management that shareholders to achieve dividend growth with a stable pay out ratio between 20% and 30% of Net Profit, provided that the Bank complies with all regulatory norms.

For the financial year ended 31 December 2002, the Bank's management proposes to pay a dividend of 26.7% of Net Profit for the year or Ls 1,471,000 (2002: 16% pay out ratio or Ls 1,010,000). The 2003 dividend represents a dividend growth of 46%.

On 21 February 2003, the Operations Committee of the European Bank for Reconstruction and Development (EBRD) approved a transaction whereby the EBRD acquires 20% minus 1 share of the ordinary shares of Rietumu Banka. It is anticipated that this transaction will occur through a new share emission. The EBRD will enlarge the Bank's capital base and this will provide a firm base to implement that future strategy of the Bank. In addition, it will enable the Bank to strengthen its operations and increase lending limits to corporate customers in Latvia. The transaction is not complete and still has to be approved by the Board of the EBRD and contracts have to be agreed. We anticipate that the EBRD will become a shareholder during the second quarter of 2003.

The 10 year anniversary celebrations offered an excellent opportunity to meet our customers and we will use what we learnt from our customers to further improve our services to our customers requirements. We are looking forward to 2003 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
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

14 March 2003

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

The Council of Rietumu bank

1 January 2002 – 31 December 2002

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 2002 – 31 December 2002

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)

There were no changes in the Board of Directors of the Bank during the period beginning 31 December 2002 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 9 to 42 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2002 and the results of its operations and cash flows for the year ended 31 December 2002 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 2002.

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
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

14 March 2003

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AUDITORS' REPORT

To the shareholders of a/s Rietumu Banka

We have audited the financial statements of a/s Rietumu Banka ("the Bank") and financial statements of a/s Rietumu Banka and its subsidiaries (together "the Group") for the year ended 31 December 2002 set out on pages 9 to 42. The audited financial statements include the balance sheet as of 31 December 2002, statement of income, statement of changes in shareholders equity and statement of cash flow for the year then ended and note disclosure. These financial statements are the responsibility of the Bank's management, as referred to on page 7. 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 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 the Bank and the Group as of 31 December 2002, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Gordon Latimir
Personal ID: 160259-13065
Chairman of the Board

Lolita Čapkeviča
Personal ID: 211168-11503
Certified auditor
Certificate No. 120

14 March 2003

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2002

	Notes	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
ASSETS					
Cash and balances with central banks	4	16,223	16,223	15,226	15,226
Balances due from credit institutions and central banks	5	198,204	198,132	154,636	154,355
Demand deposits		*173,046*	*172,974*	*150,111*	*149,830*
Other deposits		*25,158*	*25,158*	*4,525*	*4,525*
Loans and advances to non-banking customers	6	92,033	72,818	52,354	40,846
Government bonds with fixed income	7, 8	11,438	11,438	13,624	13,624
- trading portfolio		*1,435*	*1,435*	*372*	*372*
- investment securities - available- for- sale		*9,380*	*9,380*	*12,008*	*12,008*
- held-to-maturity		*623*	*623*	*1,244*	*1,244*
Other fixed income securities	7, 8	42,297	42,236	35,646	35,493
- trading portfolio		*61*	-	*153*	-
- investment securities - available- for- sale		*596*	*596*	-	-
- held-to-maturity		*41,640*	*41,640*	*35,493*	*35,493*
Shares and other non-fixed income securities	7, 8	3,750	3,725	757	729
- trading portfolio		*694*	*691*	*674*	*668*
-investment securities - available- for- sale		*86*	*64*	*83*	*61*
- held-to-maturity		*2,970*	*2,970*	-	-
Investments in subsidiaries	9	-	3,237	-	2,306
Intangible assets	10	3,220	3,220	2,724	2,597
Property and equipment	11	9,419	9,247	9,300	9,090
Prepayments and accrued income	12	613	451	602	415
Other assets	13	715	536	546	372
Total assets		**377,912**	**361,263**	**285,415**	**275,053**

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

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2002

	Notes	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
LIABILITIES					
Balances due to other banks	14	6,747	6,747	7,069	7,069
Demand deposits		*3,638*	*3,638*	*5,251*	*5,251*
Term deposits		*3,109*	*3,109*	*1,818*	*1,818*
Due to customers	15	343,132	326,671	258,171	248,090
Demand deposits		*303,425*	*286,964*	*213,687*	*209,730*
Term deposits		*39,707*	*39,707*	*44,484*	*38,360*
Derivative financial instruments	16	268	268	-	-
Deferred income and accrued expense	17	2,558	2,500	1,029	927
Current tax liabilities		*1,165*	*1,164*	-	-
Deferred tax liabilities		*452*	*452*	*120*	*120*
Other deferred income and accrued expenses		*941*	*884*	*909*	*807*
Other liabilities		699	634	320	261
Total liabilities		**353,404**	**336,820**	**266,589**	**256,347**
Minority interest		65	-	120	-
SHAREHOLDERS' EQUITY					
Paid-in share capital	18	20,346	20,346	20,209	20,209
Legal reserve		16	16	16	16
Treasury shares		(3)	(3)	(3)	(3)
Revaluation reserve - *property*		668	668	683	683
Revaluation reserve - *available-for-sale assets*		67	67	(1,032)	(1,032)
Retained earnings/(accumulated loss)		3,349	3,349	(1,167)	(1,167)
Total shareholders' equity		**24,443**	**24,443**	**18,706**	**18,706**
Total liabilities and shareholders' equity		**377,912**	**361,263**	**285,415**	**275,053**
MEMORANDUM ITEMS					
Contingent liabilities (guarantees)		9,095	9,095	1,909	1,909
Letters of credit		1,580	1,580	-	-
Financial commitments (credit lines)		11,007	11,507	6,784	6,784
		21,682	**21,682**	**8,693**	**8,693**

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

The consolidated financial statements were approved by the Council and the Board of Directors of the Bank on 14 March 2003 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 31 DECEMBER 2002

		2002		2001	
	Notes	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income	19	10,414	9,722	12,439	10,181
Interest expense	20	(2,647)	(2,514)	(4,541)	(3,708)
Net interest income		**7,767**	**7,208**	**7,898**	**6,473**
Commission and fee income	21	10,585	9,302	8,328	6,152
Commission and fee expense	22	(2,216)	(1,669)	(1,733)	(912)
Net commission and fee income		**8,369**	**7,633**	**6,595**	**5,240**
Profit on trading with financial instruments, net	23	3,503	2,306	3,009	2,028
Dividends received		20	20	-	-
Other operating income		941	139	1,150	150
Operating income		**20,600**	**17,306**	**18,652**	**13,891**
Administrative expense	24	(10,773)	(8,850)	(9,075)	(6,251)
Amortization and depreciation charges	25	(2,117)	(1,865)	(1,935)	(1,525)
Other operating expense		(8)	(8)	(76)	-
Provisions for loans impairment	26	(1,343)	(1,343)	(1,721)	(1,360)
Release of previously established provision	26	1,505	1,505	1,143	1,143
Provision for investment securities impairment		(837)	(837)	(680)	(680)
Income from subsidiaries		-	1,086	-	891
PROFIT BEFORE INCOME TAX AND MINORITY INTEREST		**7,027**	**6,994**	**6,308**	**6,109**
Corporate income tax	27	(1,557)	(1,483)	27	229
MINORITY INTEREST		41	-	3	-
NET PROFIT FOR THE YEAR		**5,511**	**5,511**	**6,338**	**6,338**
Earnings per share	28	0.27	0.27	0.33	0.33

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

The consolidated financial statements were approved by the Council and the Board of Directors of the Bank on 14 March 2003 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 2002

	Paid-in share capital	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
As of 31 December 2000	**17,409**	**16**	**821**	**(706)**	**(7,523)**	**10,017**
Net profit for the year	-	-		-	6,338	6,338
Transfers (Note 2 *h)*	-	-	(18)	-	18	-
Deferred income tax	-	-	(120)	-	-	(120)
Revaluation of available-for-sale investments	-	-	-	(326)	-	(326)
Share issue	2,800	-	-	-	-	2,800
Purchase of treasury shares	(3)	-	-	-	-	(3)
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 (Note 2 *h*)	-	-	(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**

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

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
CASH INFLOW FROM OPERATING ACTIVITIES					
Profit before income tax and minority interest		7,027	6,994	6,308	6,109
Amortization and depreciation of property and equipment		1,697	1,445	1,580	1,176
Goodwill amortization		420	420	355	355
Increase/(decrease) in provisions for loans impairment		(162)	(162)	168	219
(Profit)/loss from revaluation of long-term investments		(351)	(351)	680	680
Profit from investments in subsidiaries		-	(931)	-	(891)
Profit/(loss) from disposals of property and equipment		(19)	(16)	(5)	-
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**8,612**	**7,399**	**9,086**	**7,648**
(Increase)/decrease in prepayments and accrued income		(11)	(35)	108	45
Increase/(decrease) in deferred income and accrued expense		1,529	1,573	144	84
Decrease/(increase) in other assets		(169)	(164)	(2,350)	(1,223)
Increase/ (decrease) in other liabilities		379	373	211	152
(Increase) in trading securities		(991)	(1,086)	-	-
Increase/(decrease) in derivative financial instruments		268	268	-	-
(Increase)/decrease in balances due from other credit institutions		(20,700)	(20,633)	68,805	69,049
(Increase)/decrease in loans and advances to non-banking customers		(39,517)	(31,810)	(40,487)	(33,948)
(Decrease)/increase in balances due to other credit institutions		1,291	1,291	(10,846)	(10,846)
Increase in deposits from the public		84,961	78,581	121,920	115,132
Increase in cash and cash equivalents from operating activities before corporate income tax		**35,652**	**35,757**	**146,591**	**146,093**
Corporate income tax paid		-	-	-	-
Net cash and cash equivalents from operating activities		**35,652**	**35,757**	**146,591**	**146,093**
CASH OUTFLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(2,778)	(2,681)	(2,231)	(2,164)
Sale of property and equipment		25	18	20	20
Acquisition of subsidiaries, net of cash acquired		-	-	-	(10,263)
Purchase of long-term investments		(6,467)	(6,467)	(20,608)	(20,427)
(Purchase)/sale of equity investments in other entities and acquisition of subsidiaries		-	-	(10,255)	4
Decrease in cash and cash equivalents from investing activities		**(9,220)**	**(9,130)**	**(33,074)**	**(32,830)**
CASH INFLOW FROM FINANCING ACTIVITIES					
Share issue		137	137	2,800	2,800
Dividends paid		(1,024)	(1,010)	-	-
Increase in cash and cash equivalents from financing activities		**(887)**	**(873)**	**2,800**	**2,800**
Net cash inflow for the period		**25,545**	**25,754**	**116,317**	**116,063**
Cash and cash equivalents at the beginning of the year		**160,086**	**159,805**	**43,769**	**43,742**
Cash and cash equivalents at the end of the year	30	**185,631**	**185,559**	**160,086**	**159,805**

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

1 INCORPORATION AND PRINCIPAL ACTIVITIES

The Parent Company of the Group – A/s Rietumu Banka 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 Group's main areas of operation 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) Reporting currency

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

b) Basis of accounting

These financial statements are prepared in accordance with International Financial Reporting Standards. 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 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.

The Group adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001. The financial effects of adopting IAS 39 were reported in the previous year's consolidated financial statements.

c*) 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 *g)* 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.

d) 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. Third party expenses, such as legal fees, 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 both specific and general 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.

e) 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 time of the purchase.

Investment securities are initially recognized at cost (which includes transaction costs). Available-for-sale investment securities 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.

f) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) 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.

h) 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 buildings are credited to the revaluation reserve in shareholders equity. It is the Bank's policy to revalue its buildings every five years. 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.

i) 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.

j) 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.

Commissions and fees are generally recognized on an accruals basis when the service has been provided. Loan commitment fees for loans, the drawn down of which is highly probable, 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)

k) 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 2002 and 31 December 2001 were as follows:

31.12.2002		31.12.2001	
USD	0.594	USD	0.638
EUR	0.610	EUR	0.561
RUR	0.0187	RUR	0.0211
UAH	0.111	UAH	0.121
		DEM	0.287

l) 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, general provisions, 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.

m) 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.

n) 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.

o) 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 and long-service leave as a result of services rendered by employees up to the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) 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 a recognized asset or liability (fair value hedge). 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.

q) 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. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

r) 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.

s) 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.

3. 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.

3. 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 CASH AND DEPOSITS WITH THE BANK OF LATVIA

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Cash	4,974	4,974	5,757	5,757
Deposits with the Bank of Latvia	11,249	11,249	9,469	9,469
Total cash and deposits with the Bank of Latvia	**16,223**	**16,223**	**15,226**	**15,226**

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 6% 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 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Demand placements with:				
Latvian commercial banks	1,765	1,765	624	624
OECD credit institutions	166,978	166,978	147,148	147,148
Non-OECD credit institutions	4,303	4,231	2,394	2,113
Gross demand placements	**173,046**	**172,974**	**150,166**	**149,885**
Provision for possible credit losses	-	-	(55)	(55)
Total demand placements, net	**173,046**	**172,974**	**150,111**	**149,830**
Term placements with:				
Bank of Latvia	430	430	-	-
Latvian commercial banks	-	-	50	50
OECD credit institutions	24,550	24,550	1,511	1,511
Non-OECD credit institutions	178	178	2,964	2,964
Total term placements	**25,158**	**25,158**	**4,525**	**4,525**
Total balances due from credit institutions, net	**198,204**	**198,132**	**154,636**	**154,355**

During 2002 the average interest rate received on balances due from credit institutions was 2.68% per annum (during 2001 - 3.85%)

5 BALANCES DUE FROM CREDIT INSTITUTIONS (continued)

The largest balances due from credit institutions as of 31 December 2002 were as follows:

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Vereins und Westbank (Hamburg)	65,395	65,395
Erste bank (Austria)	26,730	26,730
Sumitotmo banka (London)	23,760	23,760
Republic National Bank (USA)	21,740	21,740
Bankers Trust	16,525	16,525
Commerzbank (Frankfurt)	6,629	6,629

6 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

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

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Private companies	82,248	63,523	46,851	35,430
Loans to private individuals	11,035	10,545	7,220	7,133
Total gross loans and advances to non-banking customers	**93,283**	**74,068**	**54,071**	**42,563**
Specific loan impairment provisions (see Note 26)	(970)	(970)	(1,361)	(1,361)
General loan impairment provisions (see Note 26)	(280)	(280)	(356)	(356)
Loans and advances to non-banking customers, net	**92,033**	**72,818**	**52,354**	**40,846**
Loans and advances secured by cash deposits	(1,074)	(1,074)	(7,476)	(4,058)
Loans and advances subject to credit risk, net	**90,959**	**71,744**	**44,878**	**36,788**

In 2002, the weighted average interest rates for loans were 10 % (2001:7.45%) and 7.99 % (2000: 9.65%) for short-term and long-term loans, 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 2002 the Bank was in compliance with this requirement.

The amount of loans, for which interest is not accrued, is LVL 1,340 thousand as of 31 December 2002 (2001: LVL 2,154 thousand).

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 6 months LVL'000	6 to 12 months LVL'000	More than 1 year LVL'000	Pledged LVL'000	Total LVL'000
31 December 2002							
Commercial & industrial companies	22,606	30,383	2,710	3,750	17,493	4,510	81,452
Individuals	495	82	1,006	700	8,298	-	10,581
Total	**23,101**	**30,465**	**3,716**	**4,450**	**25,791**	**4,510**	**92,033**
31 December 2001							
Commercial & industrial companies	11,655	1,358	5,268	3,951	22,062	1,416	45,710
Individuals	379	16	244	566	5,439	-	6,644
Total	**12,034**	**1,374**	**5,512**	**4,517**	**27,501**	**1,416**	**52,354**

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

	31 December 2002 LVL'000	31 December 2001 LVL'000
Latvia	40,539	29,449
Non-OECD countries	9,075	5,649
OECD countries	42,419	17,256
Total	**92,033**	**52,354**

7 TRADING SECURITIES

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Russian government bonds	1,435	1,435	372	372
Shares listed on the Moscow stock exchange	570	570	547	547
Shares listed on the Riga stock exchange	121	121	121	121
US corporate bonds	61	-	153	-
Shares listed on the New York stock exchange	3	-	6	-
Total	**2,190**	**2,126**	**1,199**	**1,040**

8 INVESTMENT SECURITIES

Securities available-for-sale:

	31 December 2002 Group LVL'000	31 December 2001 Group LVL'000
United States government bonds	9,380	12,008
US corporate bonds	596	-
Equity securities – at fair value		
- Unlisted	86	83
Total securities available-for-sale	**10,062**	**12,091**

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

Securities held -to-maturity:

	31 December 2002 Group LVL'000	31 December 2001 Group LVL'000
Listed debt securities – at amortized cost		
Argentina government bonds – cost	*2,089*	*1,951*
Provision for impairment of Argentina government bonds	*(1,466)*	*(707)*
Carrying value of Argentina government bonds	623	1,244
US corporate bonds	25,379	32,578
Canadian corporate bonds	1,209	984
Great Britain corporate bonds	4,761	641
France corporate bonds	1,192	1,290
German corporate bonds	4,867	-
Luxemburg corporate bonds	5,961	-
Swiss corporate bonds	1,241	-
Total securities held-to-maturity	**45,233**	**36,737**
Total investment securities	**55,295**	**48,828**

Investment securities at 31 December 2002 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 that date.

The carrying amount and the fair value of the Bank's investment securities held-to-maturity was as follows:

	31 December 2002 Carrying value LVL'000	31 December 2002 Fair value LVL'000
Argentina government bonds	623	623
Corporate bonds	44,610	44,556
Total investment securities	**45,223**	**45,179**

Argentina Eurobonds are in default. The original Eurobonds held by the Bank had a maturity date of 2003. Whilst no external debt restructuring has been announced as yet, the Argentina government is widely expected to default on the maturity settlement of the 2003 Eurobonds. The Argentina 2031 Eurobond was restructured in June 2001 and the likelihood of the 2031 Eurobonds being restructured again is in management's estimate low. Management has considered various scenarios of possible restructuring conditions.

8 INVESTMENT SECURITIES (continued)

Given the fact that a restructuring of the 2031 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 65% of their face value. Management considers that the estimates that have been used are prudent.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
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	3,925	4,195	11,770	25,975
Canadian corporate bonds	-	-	-	1,209	-	1,209
Great Britain corporate bonds	-	-	-	1,791	2,970	4,761
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**	**3,925**	**7,195**	**38,247**	**56,644**
31 December 2001						
Russian government bonds	-	-	-	-	372	372
United States government bonds	-	-	-	-	12,008	12,008
Argentina government bonds	-	-	-	-	1,244	1,244
US corporate bonds	17,841	6,673	-	3,081	5,136	32,731
Canadian corporate bonds	984	-	-	-	-	984
Great Britain corporate bonds	-	-	-	-	641	641
France corporate bonds	-	-	-	-	1,290	1,290
Total	**18,825**	**6,673**	**-**	**3,081**	**20,691**	**49,270**

9 INVESTMENTS IN SUBSIDIARIES

As of 31 December 2002 and 2001, 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 2002		31 December 2001	
RB Securities Ltd	Financial services	3 Chrysanthou Mylona street, Limassol, Cyprus	99.99%	2,897	99.99%	1,836
JSC "Baltijas karšu centrs"	Processing of payment cards	Dzērbenes14, Riga, Latvia	75%	185	75%	349
JSC "Baltijos Vertybiniai popieriai"	Brokerage services	Gedemino pr. 60, Vilnius, Lithuania	99%	155	99%	121
Total investments in subsidiaries				**3,237**		**2,306**

RB Securities Ltd, JSC"Baltijas karšu centrs" and JSC "Baltijos Vertybiniai popieriai" are consolidated in the Group accounts.

9 INVESTMENTS IN SUBSIDIARIES (continued)

	RB Securities Ltd	Baltijos Vertybiniai Poperiai	Baltijas Karšu centrs	Total
Investment value as of 31 December 2001	**1,836**	**121**	**349**	**2,306**
Dividends paid	-	-	(42)	(42)
Revaluation	1,187	21	(122)	1,086
Foreign currency revaluation	(126)	13	-	(113)
Investment value as of 31 December 2002	**2,897**	**155**	**185**	**3,237**

10 INTANGIBLE ASSETS

Intangible assets of the Bank comprise the following:

	Goodwill	Negative goodwill	Software	Advance payments for software	Total
Historical Cost					
Balance at 31 December 2001	**2,181**	**(57)**	**1,182**	**68**	**3,374**
Additions	-	-	231	1,200	1,431
Disposals	-	-	(1)	(8)	(9)
Balance at 31 December 2002	**2,181**	**(57)**	**1,412**	**1,260**	**4,796**
Amortization					
Balance at 31 December 2001	363	(8)	422	-	777
Amortization charge for the year	436	(16)	379	-	799
Disposals	-	-	(1)	-	(1)
Balance at 31 December 2002	**799**	**(24)**	**800**	**-**	**1,575**
Net book value					
At 31 December 2001	**1,818**	**(49)**	**760**	**68**	**2,597**
At 31 December 2002	**1,382**	**(33)**	**611**	**1,260**	**3,220**

Intangible assets of the Group comprise the following:

	Goodwill	Negative goodwill	Software	Advance payments for software	Total
Historical Cost					
Balance at 31 December 2001	**2,181**	**(57)**	**1,416**	**75**	**3,615**
Additions	-	-	245	1,200	1,445
Disposals	-	-	(9)	(8)	(17)
Transfers	-	-	7	(7)	-
Balance at 31 December 2002	**2,181**	**(57)**	**1,659**	**1,260**	**5,043**
Amortization					
Balance at 31 December 2001	363	(8)	536	-	891
Amortization charge for the year	436	(16)	521	-	941
Disposals	-	-	(9)	-	(9)
Balance at 31 December 2002	**799**	**(24)**	**1,048**	**-**	**1,823**
Net book value					
At 31 December 2001	**1,818**	**(49)**	**880**	**75**	**2,724**
At 31 December 2002	**1,382**	**(33)**	**611**	**1,260**	**3,220**

11 PROPERTY AND EQUIPMENT

Property and equipment of the Bank comprise the following:

(LVL'000)	Buildings	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation							
31 December 2001	**5,259**	**1,493**	**724**	**3,448**	**665**	**549**	**12,138**
Additions	121	83	26	289	731	-	1,250
Disposals	-	-	(62)	(69)	-	(300)	(431)
Transfers	125	191	141	885	(1,376)	34	-
31 December 2002	**5,505**	**1,767**	**829**	**4,553**	**20**	**283**	**12,957**
Accumulated depreciation							
31 December 2001	**466**	**-**	**336**	**1,891**	**-**	**355**	**3,048**
Charge for the period	104	-	139	779	-	44	1,066
Disposals	-	-	(38)	(66)	-	(300)	(404)
31 December 2002	**570**	**-**	**437**	**2,604**	**-**	**99**	**3,710**
Net book value							
31 December 2001	**4,793**	**1,493**	**388**	**1,557**	**665**	**194**	**9,090**
31 December 2002	**4,935**	**1,767**	**392**	**1,949**	**20**	**184**	**9,247**

Property and equipment of the Group comprise the following:

(LVL'000)	Buildings	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation							
31 December 2001	**5,259**	**1,493**	**764**	**3,834**	**665**	**549**	**12,564**
Exchange rate adjustments	-	-	(3)	-	-	-	(3)
Additions	121	83	98	300	731	-	1,333
Disposals	-	-	(74)	(92)	-	(300)	(466)
Transfers	125	191	141	885	(1,376)	34	-
31 December 2001	**5,505**	**1,767**	**926**	**4,927**	**20**	**283**	**13,428**
Accumulated depreciation							
31 December 2001	**466**	**-**	**346**	**2,097**	**-**	**355**	**3,264**
Exchange rate adjustments	-	-	(1)	-	-	-	(1)
Charge for the period	104	-	150	878	-	44	1,176
Disposals	-	-	(43)	(87)	-	(300)	(430)
31 December 2002	**570**	**-**	**452**	**2,888**	**-**	**99**	**4,009**
Net book value							
31 December 2001	**4,793**	**1,493**	**418**	**1,737**	**665**	**194**	**9,300**
31 December 2002	**4,935**	**1,767**	**474**	**2,039**	**20**	**184**	**9,419**

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

Buildings include the Bank's head office at Brivibas Street 54, Riga, the Bank's branch and office at Vesetas Street 7, Riga. The office at Vesetas Street 7 was revalued by LVL 163,000 in 1997 to reflect the fair market value of the building.

During February 1998, the Bank purchased another building located at Brivibas St. 54, Riga, Latvia for LVL 1,700,000. The building was revalued by LVL 787,000. This building became the new head office of the Bank in July 1998. The building was independently valued by a certified valuer as at 31 December 1998 as having a value of LVL 2,800,000. The difference between the carrying value and market value has been credited to the revaluation reserve.

12 PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income are comprised of the following:

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Accrued interest income from loans	214	145	237	186
Accrued interest income on balances due from banks	54	54	34	34
Accrued income from spot deals	25	25	3	3
Prepaid expenses	320	227	337	194
Provisions for accrued income	-	-	(9)	(1)
Total	**613**	**451**	**602**	**416**

13 OTHER ASSETS

Other assets are comprised of the following:

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Traveler cheques	102	102	77	77
Advances for goods and services	47	47	42	42
Other assets	509	330	420	247
Non-interest bearing deposit with SWIFT	53	53	-	-
Cash advances to employees	10	10	9	8
	721	**542**	**548**	**374**
Provision for other assets (Note 26)	(6)	(6)	(2)	(2)
Total	**715**	**536**	**546**	**372**

14 BALANCES DUE TO OTHER BANKS

Balances due to credit institutions are comprised of the following:

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Balances due to credit institutions registered in Latvia	3,047	3,047	602	602
Balances due to credit institutions registered in OECD countries	915	915	-	-
Balances due to credit institutions registered in non-OECD countries	2,785	2,785	6,467	6,467
Total	**6,747**	**6,747**	**7,069**	**7,069**

The largest amounts due to banks were as follows:

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000
Latvijas hipotēku un zemes banka	1,500	1,500
Barrington bank	2,197	2,197
EBRD	915	915

14 BALANCES DUE TO OTHER BANKS (continued)

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

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Demand deposits	3,638	3,638	5,251	5,251
Term deposits	3,109	3,109	1,818	1,818
Total	**6,747**	**6,747**	**7,069**	**7,069**

15 DUE TO CUSTOMERS

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Demand deposits from				
Municipality	3	3	23	23
State enterprises	302	302	48	48
Private companies	10,250	10,250	8,629	8,700
Individuals	12,442	12,442	10,704	10,440
Private companies non-residents	254,385	237,924	192,899	170,402
Individuals non-residents	26,043	26,043	1,384	20,117
Total demand deposits	**303,425**	**286,964**	**213,687**	**209,730**
Term deposits				
Municipality	-	-	4,000	4,000
Private companies	470	470	1,602	1,662
Individuals	3,771	3,771	2,656	2,656
Private companies non-residents	27,571	27,571	30,580	24,556
Individuals non-residents	7,895	7,895	5,646	5,486
Total term deposits	**39,707**	**39,707**	**44,484**	**38,360**
Total due to customers	**343,132**	**326,671**	**258,171**	**248,090**

Deposits of LVL 1,074 thousand are pledged as a security for loans issued by the Bank and the Group (2001: 4,058 and 7,476 thousand respectively). See Note 6.

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

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 to 12 months LVL'000	Greater than 1 year LVL'000	Total LVL'000
31 December 2002						
Private companies	86	-	150	164	70	470
Individuals	280	562	922	748	1,259	3,771
Non-residents	17,412	3,251	4,048	8,333	2,422	35,466
Total	**17,778**	**3,813**	**5,120**	**9,245**	**3,751**	**39,707**
31 December 2001						
Municipality	-	-	4,000	-	-	4,000
Private companies	1,535	32	1	34	-	1,602
Individuals	551	514	466	983	142	2,656
Non-residents	18,525	11,587	3,153	2,749	212	36,226
Total	**20,611**	**12,133**	**7,620**	**3,766**	**354**	**44,484**

In 2002 the weighted average interest rate on term deposits was 1.62% and 4.07% (2001: 3.57% and 4.89%) for short and long-term deposits respectively.

16 DERIVATIVE FINANCIAL INSTRUMENTS

	Contract amount LVL'000	31 December 2002 Bank LVL'000	Contract amount LVL'000	31 December 2001 Bank LVL'000
Derivatives designated as fair value hedges:				
Treasury futures	8,910	**268**	-	-

17 DEFERRED INCOME AND ACCRUED EXPENSE

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Deferred income	94	94	-	-
Accrued interest expense on deposits	406	375	536	526
Current tax liability (see Note 27)	1,165	1,165	-	-
Deferred tax liability (see Note 27)	452	452	120	120
Other	441	414	373	281
Total	**2,558**	**2,500**	**1,029**	**927**

18 PAID-IN SHARE CAPITAL

As of 31 December 2002 the authorized and issued share capital comprised of 20,346,375 (2001: 20,209,375) shares with a par value of LVL 1 per share, paid share capital comprised of 20,343,875 (2001: 20,206,875) shares. All shares are distributed as follows:

	31 December 2002 LVL'000	31 December 2001 LVL'000
Companies non-residents	3,123	2,123
Members of the Board	8	8
Private persons	17,215	18,078
Total	**20,346**	**20,209**

The largest shareholders of the Bank as of 31 December 2002:

	31 December 2002 Paid capital LVL' 000	31 December 2002 Percentage holding
Leonid Esterkin	6,873	33.78
Tony Levin	5,428	26.68
Arkady Suharenko	3,888	19.11
Others	4,157	20.43
Total	**20,346**	**100.00**

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

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the Meeting on 17 March 2003, a dividend in respect of 2002 of LVL 0.072 per share (2001: actual dividend per share LVL 0.05) amounting to total of LVL 1,471 thousand (2001: actual LVL 1,010 thousand) is to be proposed. The financial statements of 2002 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 2003.

19 INTEREST INCOME

Interest income is comprised of the following:

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
On balances due from credit institutions	2,634	2,634	3,431	3,062
On loans granted to customers	6,123	5,447	6,501	4,638
On debt securities	1,648	1,632	1,982	1,973
Other	9	9	525	508
Total	**10,414**	**9,722**	**12,439**	**10,181**

20 INTEREST EXPENSE

Interest expense is comprised of the following:

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
On due to customers	1,921	1,788	3,746	2,995
On balances due to other banks	587	587	677	625
Other	139	139	118	88
Total	**2,647**	**2,514**	**4,541**	**3,708**

21 COMMISSION AND FEE INCOME

Commission and fee income is comprised of the following:

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Money transfers	5,452	5,452	3,903	3,038
Cash withdrawals	497	497	498	498
Commission income from payment cards	1,686	1,686	1,001	786
Revenue from customer asset management and brokerage commissions	1,123	15	1,027	33
Account opening	310	310	266	266
Commission income from loans	447	447	416	416
Other	1,070	895	1,217	1,115
Total	**10,585**	**9,302**	**8,328**	**6,152**

22 COMMISSION AND FEE EXPENSE

Commission and fee expense is comprised of the following:

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Banks	1,040	1,040	546	409
Brokerage commission	555	22	535	13
Cash withdrawals	22	22	26	26
Credit card expenses	542	542	375	230
Other commission	57	43	251	234
Total	**2,216**	**1,669**	**1,733**	**912**

23 PROFIT FROM TRADING WITH FINANCIAL INSTRUMENTS, NET

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Foreign exchange profit from conversion of Russian Rouble	731	731	620	620
Foreign exchange profit from conversion of Belorussian Rouble	35	35	39	39
Foreign exchange profit from conversion of Kazakhstan Tenge	-	-	12	12
Foreign exchange profit from conversion of Ukrainian Hryvna	18	18	11	11
Foreign exchange profit from conversion of OECD country currencies	1,166	1,147	794	1,075
Income /(loss) from foreign currency revaluation	295	299	(120)	(123)
Profit from deals with trading securities	1,185	44	1,920	825
Profit from revaluation of securities	259	224	80	80
(Loss)/profit from deals with other financial instruments	(384)	(406)	(511)	(511)
Other	198	214	164	-
Total net gain from trading with securities and foreign currencies	**3,503**	**2,306**	**3,009**	**2,028**

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 2002 and 2001, the Bank employed on average 522 and 420 employees, respectively.

Administrative expenses are comprised of the following:

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Salaries to Board of Directors and Council	815	815	616	564
Staff salaries	3,281	3,006	2,679	2,072
Social tax	889	819	756	593
Accruals for annual leave	104	104	-	-
Communications	1,109	1,064	1,115	933
Professional fees	1,397	190	1,021	151
Advertising and marketing	167	167	170	156
Charitable donations	310	310	129	129
Utilities and maintenance	114	114	92	53
Representation	209	208	128	90
Travel	191	177	183	151
Rent	470	367	315	175
Stationery	80	80	125	66
Training	49	49	18	12
Fines	-	-	19	19
Security	8	8	70	7
Property tax	82	82	66	66
Other	1,498	1,290	1,573	1,014
Total	**10,773**	**8,850**	**9,075**	**6,251**

25 AMORTIZATION AND DEPRECIATION CHARGE

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Property and equipment depreciation	1,176	1,066	1,580	1,170
Goodwill amortization	420	420	355	355
Intangible assets amortization	521	379	-	-
Total	**2,117**	**1,865**	**1,935**	**1,525**

26 PROVISIONS FOR LOANS IMPAIRMENT

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Provision expense for loans impairment	(1,303)	(1,303)	(1,721)	(1,360)
Provision on credit card operations	(29)	(29)	-	-
Written off assets	(11)	(11)	-	-
Provision expense charged to the statement of income	**(1,343)**	**(1,343)**	**(1,721)**	**(1,360)**
Release of previously established provision	1,460	1,460	1,143	1,143
Recovery of previously written off assets	45	45	-	-
Release of previously established provision	**1,505**	**1,505**	**1,143**	**1,143**
Provision charged to statement of income, net	**162**	**162**	**(578)**	**(217)**

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 2000	**1,015**	**68**	**1,083**
Acquisition of subsidiary and merger	488	56	544
Decrease of provisions	(1,114)	(29)	(1,143)
Net of provisions charged to the statement of income	1,360	-	1,360
Written off assets	(57)	(38)	(95)
Currency revaluation	84	-	84
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)	(390)
Currency revaluation	(16)	-	(16)
Provisions as of 31 December 2002	**1,250**	**6**	**1,256**

27 TAXATION

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Current tax	(1,239)	(1,165)	-	-
Deferred tax	(318)	(318)	27	229
	(1,557)	**(1,483)**	**27**	**229**

27 TAXATION (continued)

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

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
Profit before taxation	**7,027**	**6,994**	**6,308**	**6,109**
Theoretically calculated tax at tax rate of 22% [2001: 25%]	1,546	1,539	1,577	1,527
Expenses not deductible for tax purposes	320	258	355	278
Non-taxable income	(22)	(272)	(69)	(326)
Relief for donations	(229)	(229)	-	-
Changes in previously unrecognized deferred tax	144	159	(1,177)	(1,177)
Result of revaluation of temporary differences	-	-	(178)	(258)
Effect of different tax rates in other countries	(223)	-	(262)	-
Effect of changing Corporate tax rates on deferred tax calculation	21	28	(273)	(273)
Tax charge /(credit)	**1,557**	**1,483**	**(27)**	**(229)**

The movement on the deferred tax account is as follows:

	2002 Group LVL'000	2002 Bank LVL'000	2001 Group LVL'000	2001 Bank LVL'000
At 1 January	120	120	-	-
Statement of income charge	318	318	-	-
Revaluation reserve - property	-	-	120	120
Available for sale securities - fair value remeasurement	46	46	-	-
Available for sale securities – transfer to the net profit	(32)	(32)	-	-
At 31 December	**452**	**452**	**120**	**120**

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

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Temporary difference on depreciation of fixed assets	570	557	592	592
Temporary difference on general loans impairment provisions	(59)	(59)	(78)	(78)
Tax loss carried forward	(4)	-	(167)	(167)
Revaluation reserve – available-for-sale investments	16	16	(227)	(227)
Temporary difference on accruals for vacations and bonuses	(46)	(37)	-	-
Temporary differences from revaluation of other financial assets and liabilities	(25)	(25)	-	-
Deferred tax liability	**452**	**452**	**120**	**120**

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.

	2002 Bank	2001 Bank
Net profit attributable to shareholders	**5,511,000**	**6,338,000**
Ordinary shares as at 1 January	20,206,875	17,409,375
Purchase of treasury shares	-	(2,500)
Number of ordinary shares issued during the year	137,000	2,800,000
Ordinary shares as at 31 December	20,343,875	20,206,875
Weighted average number of ordinary shares outstanding during the year	**20,239,530**	**19 303 877**
Basic earnings per share (expressed in LVL per share)	**0.27**	**0.33**

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 2002 and 2001 were as follows:

	31 December 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Russian government bonds	23,504	116	26,564	3,254
Loans	19,312	19,312	28,261	28,261
Shares listed on the Russian stock exchange	6,804	69	3,322	680
United States corporate bonds	6,426	111	4,682	120
Ukrainian government bonds	2,982	512	941	602
United States government bonds	2,535	-	4,284	-
Argentina government bonds	2,362	-	-	-
Brazilian government bonds	2,243	-	2,757	-
Shares listed on the New York stock exchange	1,491	15	2,551	17
Mutual funds	157	157	225	225
Estonian corporate bonds	44	44	-	-
Latvian government bonds	-	-	101	101
Due from Paveletsky and Impexbank	-	-	63	63
Privatization certificates	60	56	40	40
Shares listed on Frankfurt stock exchange	-	-	27	13
Other assets	6,944	-	5,042	-
Total	**74,864**	**20,392**	**78,860**	**33,376**

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.

As of 31 December 2002 there were 31 outstanding foreign exchange spot agreements (2001:59).

Legal Proceedings. As of 31 December 2002 there were 9 legal proceedings outstanding against the Group. Total amount disputed in these proceedings is LVL 2,948 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. (2001: seven outstanding legal proceedings against the Bank).

Capital commitments. As at 31 December 2002 the Group has capital commitments of LVL 352 thousands (2001: LVL 1,247 thousands) in respect of software and hardware purchases.

29 MEMORANDUM ITEMS (continued)

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 2002 Group LVL'000	31 December 2002 Bank LVL'000	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000
Cash	4,974	4,974	5,757	5,757
Balances due from the Bank of Latvia	11,249	11,249	9,469	9,469
Demand deposits due from other banks	173,046	172,974	150,111	149,830
(Demand deposits due to other banks)	(3,638)	(3,638)	(5,251)	(5,251)
Total	**185,631**	**185,559**	**160,086**	**159,805**

31 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have significant influence over the Bank, 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 2002 Amount LVL'000	31 December 2001 Amount LVL'000
Loans:		
Loans at the beginning of year	304	239
Loans to management and directors issued during year	2,681	148
Transfers		-
Loan repayment during the year	(1,911)	(83)
Loans to management as at end of year	**1,074**	**304**
Interest income earned	32	28
Deposits		
Deposits at the beginning of year	105	2,010
Deposits received during year	2,392	105
Deposits repaid during the year	(2,444)	(2,010)
Deposits at the end of year	**53**	**105**
Interest expense on deposits	10	1
Guarantees and credit lines issued by the Group for management and Directors	97	139

No provisions have been recognized in respect of loans or guarantees given to related parties (2001: nil).

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

As of 31 December 2002, 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 capital, as defined in Note 33.

32 FOREIGN EXCHANGE EXPOSURES

The following table provides analysis of the Bank's assets and liabilities by currency as of 31 December 2002:

	Assets	Liabilities	Net future open position	31 December 2002 Open position	31 December 2002 Percent of capital	31 December 2001 Open position	31 December 2001 Percent of capital
USD	299,738	293,870	(5,420)	448	2.18%	(966)	(6.14%)
RUB	4,180	4,248	-	(68)	(0.33%)	(253)	(1.61%)
GBP	1,494	781	-	713	3.47%	(20)	(0.13%)
EUR	21,975	23,943	2,133	165	0.80%	154	0.98%
LTL	56	12	-	44	0.21%	(69)	(0.44%)
Other (short)	14	24	-	(10)	(0.05%)	(35)	(0.22%)
Other (long)	2,317	5,708	3,540	149	0.72%	106	0.67%
Total	**329,774**	**328,586**	**253**	**1,441**		**(1,083)**	
Total short position					**(78)**		**(1,343)**
Total long position					**1,519**		**260**
Total open position					**7.39%**		**8.54%**
Capital requirement for foreign currency exchange risk					**111**		**103**

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

As of 31 December 2002, 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 capital under the Finance and Capital Markets Commission guidelines), and that the total foreign currency open position may not exceed 20% of the Bank's capital.

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 2002 has been calculated as follows:

Tier 1	
- paid-in share capital	20,346
- reserve capital	16
- accumulated loss	(1,149)
- less: treasury shares	(3)
- profit of the year 2002	5,511
Deductions from the capital base	
Intangible assets	(3,220)
Dividends declared	(1,471)
Total Tier 1	**20,030**
70% of property revaluation reserve	468
Assets available-for-sale revaluation reserve	67
Total Tier 2	**535**
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission	**20,565**
Tier 2 Under the Basle Agreement	
Property revaluation reserve	668
Assets available-for-sale revaluation reserve	67
Equity to be utilized for the capital adequacy calculation under the Basle Agreement	**20,765**

33 CAPITAL ADEQUACY (continued)

As of 31 December 2002, 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 2002	Risk weighting %	Risk weighted assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	16,653	0%	-
Balances due from governments and central banks within A zone countries	9,380	0%	-
Loans and advances secured by deposits and A zone government bonds	24,882	0%	-
Balances due from credit institutions within A zone countries	197,902	20%	39,580
Demand deposits with credit institutions within Latvia	1,765	20%	353
Term deposits with credit institutions within Latvia	-	50%	
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	4,170	50%	2,085
Balances due from governments and central banks within B zone countries	623	100%	623
Balances due from credit institutions within B zone countries	4,409	100%	4,409
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	85,839	100%	85,839
Shares and other non-fixed income securities and investments in subsidiaries	83	100%	83
Property and equipment	9,247	100%	9,247
Other assets	536	100%	536
Prepayments and other assets	451	100%	451
Total assets	**355,940**		**143,206**
Memorandum items			
Credit commitments	8,730	50%	4,365
Credit commitments with zero risk weighted	2,065	0%	-
Outstanding guarantees with zero risk weighted	4,368	0%	-
Outstanding guarantees with 100% risk weighted	4,727	100%	4,727
Total assets and memorandum items for capital adequacy			**152,298**
Capital requirement for credit risk of banking book			**15,230**
Capital requirement for position risk of trading book			**303**
Capital requirement for foreign currency exchange risk			**111**
Capital charges covered by own funds			**4,900**
Capital adequacy ratio			**13.15%**

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 2002 Group's capital adequacy according to the Finance and Capital Market Commission's requirements was 13.15%. 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 2002 is calculated as follows:

	Assets 31 December 2002	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	16,653	0%	-
Claims on OECD central governments and central banks	9,380	0%	-
Loans and advances secured by deposits and OECD countries government bonds	27,597	0%	-
Balances due from credit institutions within OECD area	197,902	20%	39,580
Balances due from credit institutions within non-OECD area	6,676	20%	1,335
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	4,170	50%	2,085
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	98,677	100%	98,677
Claims on central governments outside the OECD (unless denominated in national currency)	623	100%	623
Shares and other non-fixed income securities and investments in subsidiaries	83	100%	83
Property and equipment	9,419	100%	9,419
Accrued income and prepayments	715	100%	715
Other assets	613	100%	61
Total assets	**372,508**		**153,131**
Memorandum items			
Credit commitments	8,730	50%	4,365
Credit commitments with zero risk weighted	2,065	0%	-
Outstanding guarantees with zero risk weighted	4,368	0%	-
Outstanding guarantees with 100% risk weighted	4,727	100%	4,727
Total assets and memorandum items for capital adequacy			**162,223**
Capital requirement for credit risk of banking book			**16,222**
Capital requirement for position risk of trading book			**303**
Capital requirement for foreign currency exchange risk			**111**
Total share capital for capital adequacy			**16,636**
Capital adequacy ratio			**12.48%**

The Group's risk based capital adequacy as of 31 December 2002 was 12.48%, 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 2002 was the following:

LVL'000	Up to 1 month	1 and 3 months	3 and 6 months	6 and 12 months	More than 1 year and undated	Pledged	Total
Assets							
Cash and deposits with the Bank of Latvia	16,223	-	-	-	-	-	16,223
Balances due from credit institutions	173,046	23,938	-	594	-	626	198,204
Loans and advances to non-banking customers	23,101	30,465	3,716	4,450	25,791	4,510	92,033
Government bonds and other fixed income securities	2,462	4,815	3,925	7,195	34,745	596	53,738
Shares and other non-fixed income securities	691	-	-	-	3,056	-	3,747
Intangible assets	-	-	-	-	3,220	-	3,220
Property and equipment	-	-	-	-	9,419	-	9,419
Other assets	662	-	-	-	53	-	715
Prepayments and accrued income	341	272	-	-	-	-	613
Total assets	**216,526**	**59,490**	**7,641**	**12,239**	**76,284**	**5,732**	**377,912**
Less prepaid expenses	**(341)**	**-**	**-**	**-**	**-**	**-**	**(341)**
Total assets for calculation of liquidity	**216,185**	**59,490**	**7,641**	**12,239**	**76,284**	**5,732**	**377,571**
Liabilities							
Balances due to other banks	5,820	-	-	-	927	-	6,747
Due to customers	321,203	3,813	5,120	9,245	3,751	-	343,132
Derivative financial instruments	-	268	-	-	-	-	268
Other liabilities	699	-	-	-	-	-	699
Deferred income and accrued expense	-	2,106	-	-	452	-	2,558
Total shareholders' equity	-	-	-	-	24,443	-	24,443
Total liabilities and shareholders' equity	**327,722**	**6,187**	**5,120**	**9,245**	**29,573**	**-**	**377,847**
Net liquidity	**(111,537)**	**53,303**	**2,521**	**2,994**	**46,711**	**5,732**	**(276)**
Total liquidity	**(111,537)**	**(58,234)**	**(55,713)**	**(52,719)**	**(6,008)**	**(276)**	

The summary of maturity profile based on the balances as of 31 December 2001 was the following:

LVL'000	Up to 1 month	1 and 3 months	3 and 6 months	6 and 12 months	More than 1 year and undated	Total
Total assets for calculation of liquidity	206,108	33,453	5,562	7,598	60,618	313,339
Total liabilities and shareholders' equity	241,449	37,239	10,933	3,835	20,100	313,556
Net liquidity	**(35,341)**	**(3,786)**	**(5,371)**	**3,763**	**40,518**	**(217)**
Total liquidity	**(35,341)**	**(39,127)**	**(44,498)**	**(40,735)**	**(217)**	

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 2002 was as follows:

LVL'000	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	More than 1 year	Non-interest bearing	Total
Assets							
Cash and deposits with the Bank of Latvia	-	-	-	-	-	16,223	16,223
Balances due from credit institutions	170,803	23,938	-	594	-	2,869	198,204
Loans and advances to non-banking customers	26,271	30,465	3,716	4,450	25,791	1,340	92,033
Government bonds and other fixed income securities	2,462	4,815	3,925	7,195	34,715	623	53,735
Shares and other non-fixed income securities	-	-	-	-	-	3,750	3,750
Intangible assets	-	-	-	-	-	3,220	3,220
Property and equipment	-	-	-	-	-	9,419	9,419
Other assets	-	-	-	-	-	715	715
Prepayments and accrued income	-	-	-	-	-	613	613
Total assets	**199,536**	**59,218**	**7,641**	**12,239**	**60,506**	**38,772**	**377,912**
Liabilities							
Balances due to credit institutions	3,109	-	-	-	-	3,638	6,747
Deposits from the public	93,364	3,813	5,120	9,245	3,751	227,839	343,132
Derivatives	-	-	-	-	-	268	268
Other liabilities	-	-	-	-	-	699	699
Deferred income and accrued expense	-	-	-	-	-	2,558	2,558
Total shareholders' equity	-	-	-	-	-	24,443	24,443
Total liabilities and shareholders' equity	**96,473**	**3,813**	**5,120**	**9,245**	**3,751**	**259,445**	**377,847**
Interest sensitivity gap	**103,063**	**55,405**	**2,521**	**2,994**	**56,755**		

Summary of the maturity profile of assets, liabilities and shareholders' equity of the Group as at 31 December 2001 was as follows:

LVL'000	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	More than 1 year	Non-interest bearing	Total
Total assets	187,701	32,851	5,562	5,444	47,267	34,853	313,678
Total liabilities and shareholders' equity	118,834	37,015	10,751	3,771	1,223	141,962	313,556
Interest sensitivity gap	**68,867**	**(4,164)**	**(5,189)**	**1,673**	**46,044**		

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