RIETUMU BANK GROUP

Consolidated and Bank Financial Statements
and Auditors' Report
for the year ended 31 December 2004

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MANAGEMENT COMMENTARY

Operating and financial review

On 1 May 2004, Latvia joined the European Union. This marks a significant event for Latvia's development and we foresee many opportunities arising from Latvia's membership. - For Rietumu Banka, 2004 was very successful and promising from an operational, financial and strategic viewpoint. The Bank's financial performance was significantly better than expected and the Bank grew at a stable pace, while maintaining high profitability. The Bank continued to enhance its reputation as a very dynamic banks while still being one of the best managed and stable financial institutions in the Baltic States. This success has been achieved while upholding the objectives of being a Bank for corporate customers with a conservative financial position. This approach allowed an increase of shareholders value without damaging the safety of the Bank and depositors.

Operating results

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

The Bank again focused on Customer Relationship Management and customer service to all customers that use either branches or remote systems. Much effort was put into improving our remote banking services, especially internet banking. We successfully launched IBAN (international bank account numbers) that represents a uniform account number and will be implemented in all banks in Latvia. The Bank 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 is represented outside Latvia by representative offices in Moscow, Kiev, Minsk, Almata, Saint Petersburg, Prague and Kishinev.

As during the previous two years, 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 continued its lending outside Latvia. This lending is done with a very conservative approach and on a case by case basis to customers of the bank, that have businesses which are located outside Latvia. Our focus in this category, has been on Estonian clients and Russian clients. Some small projects have been initiated in Belarus. The Bank also secured collateral pledges in all cases.

The program of crediting small to medium sized enterprises continued to be very successful. Mortgages both in and outside Latvia continued to be a priority. With the developments within the credit area over the last two years, the Bank has positioned itself to offer a very competitive lending service to its customers, while maintaining the overall objective of conservative growth.

The operational results of RB Securities, the Bank's brokerage company, exceeded expectations. We expect RB Securities to continue its dynamic growth during 2005.

Compliance with local and international money laundering laws and regulations as well as improving the Bank's know your customer database, has been a key area of focus of senior management during 2004. In 2004 significant efforts were placed on updating the beneficial owner and business evidence declarations for especially non-resident accounts. Maintaining high-quality correspondent banking relationships are also of utmost importance to the Bank and we believe that correspondent banks are comfortable that we know our clients and their business. This is witnessed by the fact that the Bank managed to maintain its primary correspondent banking relationships for both EUR and US$ accounts.

1 Financial results

	2004	**2003**	**2002**	**2001**
At year end (Ls'000)				
Total assets	603,209	477,024	377,912	313,676
Loans and advances to customers	192,011	160,992	92,033	75,742
Other interest earning assets	80,876	66,251	251,909	203,906
Due to customers	539,585	435,093	343,132	259,017
Total shareholders' equity	44,380	31,216	24,443	18,706
For the year (Ls'000)				
Net profit before tax	16,510	9,952	7,027	6,308
Net profit after tax	14,568	8,317	5,511	6,338
Operating income	31,919	23,814	20,600	17,972

2 Ratios

Earnings per share (Ls)				
After tax	0.71	0.41	0.272	0.328
Before tax	0.80	0.48	0.346	0.316
Dividend per share (Ls)	0.13*	0.095	0.072	0.05
Dividend growth	37%*	32%	44%	100%
Capital adequacy				
Basle	14.35%	11.99%	12.5%	12.1%
Financial & Capital Markets Commission	14.11%	12.42%	13.2%	11.6%
Return on equity				
Before tax	43.68%	35.76%	32.57%	42.89%
After tax	38.54%	29.89%	25.54%	43.07%
Return on assets				
Before tax	2.74%	2.09%	1.86%	2.01%
After tax	2.42%	1.74%	1.46%	2.02%
Profit margin (before tax)	51.72%	41.79%	34.11%	35.1%
Number of employees	578	561	522	496

*proposed

During 2004, total assets grew to Ls 603m from Ls 477 m on 31 December 2003. This represents a growth of 26% for the year. Due to customers increased by 24% from Ls 435 m on 31 December 2003 to Ls 540 m on 31 December 2004. Current accounts and term deposits were Ls 503 m and Ls 37 m respectively (31 December 2003: Ls 347 m and Ls 88 m respectively).

The Bank's group net profit before tax for the year ended 31 December 2004 was Ls 17 m (year ended 31 December 2003: Ls 10 m) representing an increase of Ls 7m. Total shareholders equity increased from Ls 31 million on 31 December 2003 to Ls 44 million on 31 December 2004.

The Bank paid dividends for the years ended 2002 and 2003. For the financial year ended 2004, the Bank's management proposes to pay a dividend of 0.144 Ls per share (2003: 0.095 Ls per share) or Ls 2,989 thousand in total. (2003: Ls 1,952 thousand). The 2004 dividend represents a dividend growth of 53%. The proposed dividend for the year is calculated after the Bank's management forecasts that the Group can maintain a consolidated capital adequacy ratio of at least 8% while complying with all norms of the Financial and Capital Markets Commission regulations for the financial year following the dividend. It is the intention of management that shareholders achieve dividend growth, provided that the Bank complies with all regulatory norms.

We are looking forward to 2005 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

7 March 2005

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

<u>The Council of Rietumu bank</u>

1 January 2004 – 31 December 2004

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98 (22/03/04-22/03/07)
Arkady Syharenko	Deputy Council Chairman	15/04/98 (22/03/04 – 22/03/07)
Valentin Bluger	Member of the Council	15/04/98 (22/03/04 – 22/03/07)

<u>The Board of Directors</u>

1 January 2004 – 11 November 2004

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

<u>The Board of Directors</u>

11 November 2004 -31 December 2004

Name	*Position*	*Date of appointment*
Michael Bourke	Chairman of the Executive Board, President	11/11/04 (11/11/04 – 11/11/07)
Alexander Kalinovsky	Member of the Executive Board, First Vice President	11/11/04 (11/11/04 – 11/11/07)
Rolf Fuls	Member of the Executive Board, Senior Vice President	11/11/04 (11/11/04 – 11/11/07)

There were no changes in the Board of Directors of the Bank during the period beginning 31 December 2004 through to the date of the signing of these financial statements.

STATEMENT OF MANAGEMENT RESPONSIBILITY

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 and bank financial statements on pages 8 to 46 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2004 and the results of its operations and cash flows for the year ended 31 December 2004 as well as the financial position of the Bank as of 31 December 2004 and the results of its operations and cash flows for the year ended 31 December 2004.

The consolidated and bank 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

7 March 2005

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Auditors' Report

To the shareholders of the joint stock company Rietumu Banka

We have audited the accompanying unconsolidated balance sheet of A/S Rietumu Bank ("the parent company") as of 31 December 2004 and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. We have also audited the accompanying consolidated balance sheet of A/S Rietumu Bank and subsidiaries ("the Group") as of 31 December 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements which have been presented together to report the financial position, results of operations, and changes in cash flows for both the parent company and the consolidated group, as set out on pages 8 to 46, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of A/S Rietumu Bank and the consolidated financial statements of the Group based on our audit. In addition, it is our responsibility to assess whether the accounting information included in the Management Report is consistent with the financial statements.

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

In our opinion, the unconsolidated parent company financial statements give a true and fair view, in all material respects, of the financial position of A/S Rietumu Bank as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

In our opinion, the consolidated financial statements give a true and fair view, in all material respects, of the financial position of the Group as of 31 December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The management report is consistent with the financial statements.

Patrick Querubin
SIA KPMG Latvia
Licence No 55
Riga, Latvia
7 March 2005

Inga Lipšāne
Sworn Auditor
Certificate No. 112

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2004

		2004		2003	
	Notes	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income	4	17,548	16,122	11,427	10,294
Interest expense	5	(3,510)	(3,355)	(2,953)	(2,788)
Net interest income		**14,038**	**12,767**	**8,474**	**7,506**
Commission and fee income	6	12,187	10,349	10,656	9,197
Commission and fee expense	7	(2,140)	(1,775)	(2,405)	(2,089)
Net commission and fee income		**10,047**	**8,574**	**8,251**	**7,108**
Profit on trading with financial instruments, net	8	7,365	5,913	6,392	4,431
Dividends received		17	17	8	8
Other operating income		452	284	689	342
Operating income		**31,919**	**27,555**	**23,814**	**19,395**
Administrative expense	9	(12,108)	(11,665)	(10,014)	(9,610)
Amortization and depreciation charges	10	(1,572)	(1,542)	(2,065)	(1,959)
Other operating expense		(1,730)	(24)	(1,817)	(339)
Impairment losses (recoveries)	11	1	1	34	34
Income from subsidiaries	18	-	2,096	-	2,322
INCOME BEFORE INCOME TAX AND MINORITY INTEREST		**16,510**	**16,421**	**9,952**	**9,843**
Income tax	12	(1,945)	(1,840)	(1,635)	(1,526)
MINORITY INTEREST	18	3	-	-	-
NET INCOME FOR THE YEAR		**14,568**	**14,581**	**8,317**	**8,317**
Earning per share		0.71	0.71	0.41	0.41

The accompanying notes from page 14 to 46 are an integral part of these consolidated and bank financial statements.

The consolidated and bank financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 7 March 2005 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2004

	Notes	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
ASSETS					
Cash and balances with central banks	13	24,270	24,266	19,705	19,705
Balances due from credit institutions and central banks	14	287,274	286,871	213,667	213,662
Demand deposits		*224,381*	*223,978*	*188,912*	*188,907*
Other deposits		*62,893*	*62,893*	*24,755*	*24,755*
Loans and advances to non-banking customers	15	192,011	174,670	160,992	134,387
Government bonds with fixed income	16,17	34,456	34,456	13,174	13,174
- trading portfolio		-	-	*4,445*	*4,445*
- investment securities - available- for- sale		*8,162*	*8,162*	*8,242*	*8,242*
- held-to-maturity		*26,294*	*26,294*	*487*	*487*
Other fixed income securities	16,17	46,420	46,420	53,077	53,077
- investment securities - available- for- sale		*516*	*516*	*541*	*541*
- held-to-maturity		*45,904*	*45,904*	*52,536*	*52,536*
Shares and other non-fixed income securities	16,17	1,483	1,106	721	704
- trading portfolio		*968*	*966*	*563*	*561*
-investment securities - available- for- sale		*515*	*140*	*158*	*143*
Investments in subsidiaries and associates	18	12	8,173	-	4,994
Intangible assets	19	4,279	4,140	3,876	3,876
Property and equipment	20	9,397	9,291	9,319	9,238
Prepayments and accrued income	21	1,729	1,507	1,976	1,850
Other assets	22	1,878	1,282	517	516
Total assets		**603,209**	**592,182**	**477,024**	**455,183**

The accompanying notes from page 14 to 46 are an integral part of these consolidated and bank financial statements.

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2004

	Notes	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
LIABILITIES					
Balances due to other banks	23	14,922	14,922	7,491	7,491
Demand deposits		*2,769*	*2,769*	*2,789*	*2,789*
Term deposits		*12,153*	*12,153*	*4,702*	*4,702*
Due to customers	24	539,585	528,870	435,093	413,620
Demand deposits		*502,577*	*492,017*	*347,362*	*325,971*
Term deposits		*37,008*	*36,853*	*87,731*	*87,649*
Derivative financial instruments	25	287	287	212	212
Deferred income and accrued expense	26	3,803	3,553	2,333	2,271
Current tax liabilities		*331*	*327*	*162*	*147*
Deferred tax liabilities		*515*	*515*	*534*	*534*
Other deferred income and accrued expenses		*2,957*	*2,711*	*1,637*	*1,590*
Other liabilities		232	157	679	373
Total liabilities		**558,829**	**547,789**	**445,808**	**423,967**
SHAREHOLDERS' EQUITY					
Paid-in share capital	27	20,757	20,757	20,551	20,551
Share premium		151	151	25	25
Legal reserve		16	16	16	16
Less: treasury shares		-	-	(3)	(3)
Revaluation reserve - *property*		636	636	652	652
Revaluation reserve – *available-for-sale assets*		(23)	(23)	(236)	(236)
Retained earnings		22,843	22,856	10,211	10,211
Total shareholders' equity		**44,380**	**44,393**	**31,216**	**31,216**
Total liabilities and shareholders' equity		**603,209**	**592,182**	**477,024**	**455,183**
MEMORANDUM ITEMS					
Contingent liabilities (guarantees)		7,942	7,942	7,122	7,122
Letters or credit		3,355	3,355	1,644	1,644
Financial commitments (unutilized credit lines)		15,558	15,558	10,210	10,210
		26,855	**26,855**	**18,976**	**18,976**

The accompanying notes from page 14 to 46 are an integral part of these consolidated and bank financial statements.

The consolidated and bank financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 7 March 2005 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 2004

GROUP

	Paid-in share capital	Share premium	Legal reserve	Revaluation reserve – property and subsidiaries	Revaluation reserve – available-for-sale investments	Retained earnings	Total Shareholders equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As of 31 December 2002	**20,343**	**-**	**16**	**668**	**67**	**3,349**	**24,443**
Dividends paid						(1,471)	(1,471)
Net profit for the year	-	-	-		-	8,317	8,317
Transfers	-	-	-	(16)	-	16	-
Revaluation of available-for-sale investments	-	-	-	-	(303)	-	(303)
Share issue	205	25	-	-	-	-	230
As of 31 December 2003	**20,548**	**25**	**16**	**652**	**(236)**	**10,211**	**31,216**
Dividends paid	-		-	-	-	(1,952)	(1,952)
Net profit for the year	-		-	-	-	14,568	14,568
Transfers	-		-	(16)	-	16	-
Treasury shares issued	3	3	-	-	-	-	6
Revaluation of available-for-sale investments	-	-	-	-	213	-	213
Share issue	206	123	-	-	-	-	329
As of 31 December 2004	**20,757**	**151**	**16**	**636**	**(23)**	**22,843**	**44,380**

The accompanying notes from page 14 to 46 are an integral part of these consolidated and bank financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

BANK

	Paid-in share capital	Share premium	Legal reserve	Revaluation reserve – property and subsidiaries	Revaluation reserve – available-for-sale investments	Retained earnings	Total Shareholders equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As of 31 December 2002	**20,343**	**-**	**16**	**668**	**67**	**3,349**	**24,443**
Dividends paid						(1,471)	(1,471)
Net profit for the year	-	-	-		-	8,317	8,317
Transfers	-	-	-	(16)	-	16	-
Revaluation of available-for-sale investments	-	-	-	-	(303)	-	(303)
Share issue	205	25	-	-	-	-	230
As of 31 December 2003	**20,548**	**25**	**16**	**652**	**(236)**	**10,211**	**31,216**
Dividends paid	-		-	-	-	(1,952)	(1,952)
Net profit for the year	-		-	-	-	14,581	14,581
Transfers	-		-	(16)	-	16	-
Treasury shares issued	3	3	-	-	-	-	6
Revaluation of available-for-sale investments	-	-	-	-	213	-	213
Share issue	206	123	-	-	-	-	329
As of 31 December 2004	**20,757**	**151**	**16**	**636**	**(23)**	**22,856**	**44,393**

The accompanying notes from page 14 to 46 are an integral part of these consolidated and bank financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 Group	2004 Bank	2003 Group	2003 Bank
		LVL'000	LVL'000	LVL'000	LVL'000
CASH INFLOW FROM OPERATING ACTIVITIES					
Profit before income tax and minority interest		16,510	16,421	9,952	9,843
Amortization and depreciation		1,572	1,542	1,998	1,893
Impairment losses (recoveries)		(1)	(1)	(125)	(125)
Profit from investments in subsidiaries		-	(2,096)	-	(2,063)
Profit/(loss) from disposals of property and equipment		-	-	41	30
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**18,081**	**15,866**	**11,866**	**9,577**
(Increase)/decrease in prepayments and accrued income		247	343	(1,363)	(1,399)
Increase in deferred income and accrued expense		1,320	1,121	696	706
Decrease/(increase) in other assets		(1,361)	(766)	198	20
Decrease in other liabilities		(447)	(216)	(20)	(261)
Decrease/ (increase) in trading portfolio		4,040	4,040	(2,818)	(2,880)
Increase/(decrease) in derivative financial instruments		75	75	(56)	(56)
(Increase) in held-to-maturity and available-for-sale investment securities		(19,245)	(18,885)	(6,976)	(6,979)
(Increase)/decrease in balances due from other credit institutions		(38,138)	(38,138)	403	403
(Increase) in loans and advances to non-banking customers		(30,978)	(40,242)	(68,915)	(61,444)
Increase in balances due to other credit institutions		7,451	7,451	1,593	1,593
Increase in due to customers		104,492	115,250	91,961	86,949
Increase in cash and cash equivalents from operating activities before corporate income tax		**45,537**	**45,899**	**26,569**	**26,229**
Corporate income tax paid		(1,795)	(1,679)	(2,556)	(2,461)
Net cash and cash equivalents from operating activities		**43,742**	**44,220**	**24,013**	**23,768**
CASH OUTFLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(2,231)	(1,993)	(2,668)	(2,662)
Proceeds from sale of property and equipment		172	125	93	93
Investment in subsidiaries, net		(12)	(1,083)	-	306
Decrease in cash and cash equivalents from investing activities		**(2,071)**	**(2,951)**	**(2,575)**	**(2,263)**
CASH INFLOW FROM FINANCING ACTIVITIES					
Share issue		329	329	230	230
Treasury shares issued		6	6	-	-
Dividends paid		(1,952)	(1,952)	(1,471)	(1,471)
Increase in cash and cash equivalents from financing activities		**(1,617)**	**(1,617)**	**(1,241)**	**(1,241)**
Net cash inflow for the period		**40,054**	**39,652**	**20,197**	**20,264**
Cash and cash equivalents at the beginning of the year		**205,828**	**205,823**	**185,631**	**185,559**
Cash and cash equivalents at the end of the year	30	**245,882**	**245,475**	**205,828**	**205,823**

The accompanying notes from page 14 to 46 are an integral part of these consolidated and bank financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Going concern

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

b) Reporting currency

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

c) Basis of accounting

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

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

d) Basis of consolidation

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

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

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

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

e) Loans and advances to non-banking customers

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Any impairment losses on loans and advances to customers are estimated and recorded. The amount of the impairment loss 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 amount of impairment losses. The impairment loss allowance also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

The level of the impairment losses is based on the estimates of known relevant factors affecting the loan collectibility 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 uncollectible, it is written off against the related impairment loss allowance; subsequent recoveries are credited to the impairment loss account in the statement of income.

f) Investment securities

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

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

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

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

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

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

g) Trading securities

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Trading securities (continued)

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

h) Goodwill

Positive goodwill represents the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Prior to 1 January 2004, goodwill on acquisitions of subsidiaries was amortized using the straight-line method over 5 years. Management has decided to apply the requirements of IFRS 3 *Business Combinations*, the revised IAS 36 *Impairment of Assets* and the revised IAS 38 *Intangible Assets* prospectively as from 1 January 2004. Thus it discontinued amortising such goodwill and eliminated the carrying amount of the related accumulated amortisation with a corresponding decrease in goodwill.

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 recognised if the carrying amount exceeds the recoverable amount.

i) Property and equipment

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

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

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

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

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

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

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

j) Derecognition

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

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

k) Impairment

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

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

Calculation of recoverable amount

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

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

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed in a subsequent period.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

l) Interest bearing liabilities

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

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

m) Funds under trust management

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

n) Income and expense recognition

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Foreign currency translation

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

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

The principal rates of exchange (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet as of 31 December 2004 and 31 December 2003 were as follows:

31.12.2004		**31.12.2003**	
USD	0.5160	USD	0.5410
EUR	0.7030	EUR	0.6740
RUB	0.0186	RUB	0.0184
UAH	0.0971	UAH	0.0999

p) Corporate income tax

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

Deferred tax is calculated separately for each of the Group companies 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, allowances for impairment losses on loans, tax losses carried forward and revaluation of properties and certain financial assets and liabilities, including derivative contracts.

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

r) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the following:
\+ Cash and balances with central banks;
\+ Demand deposits due from other banks;
\- Demand deposits due to other banks.

s) Treasury shares

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

t) Provisions

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Derivative financial instruments

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

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

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

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

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

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

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

v) Sale and repurchase agreements and lending of securities

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

w) Regulatory requirements

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

x) Comparatives

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

3 FINANCIAL RISK MANAGEMENT

A Strategy in using financial instruments

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

The Group also seeks to raise its interest margins by obtaining above average margins, net of allowances for impairment losses, 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, as from November 2004 also by the Financial and Capital Markets commission, while in 2003 the FCMC requirement was 10%) by comparing the Group's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

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

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

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

C Credit risk

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

FINANCIAL RISK MANAGEMENT (continued)

Derivatives

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

Credit related commitments

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

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

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

D Market risk

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

E Currency risk

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

F Interest rate risk

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

G Liquidity risk

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

FINANCIAL RISK MANAGEMENT (continued)

G Liquidity risk (continued)

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

Maturities of assets and liabilities

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

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

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

H Fiduciary activities

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

4 INTEREST INCOME

Interest income is comprised of the following:

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
On balances due from credit institutions	3,594	3,594	2,788	2,788
On loans granted to customers	10,675	9,249	6,393	5,264
On debt securities	3,279	3,279	2,246	2,242
Total	**17,548**	**16,122**	**11,427**	**10,294**

5 INTEREST EXPENSE

Interest expense is comprised of the following:

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
On due to customers	2,156	2,001	1,951	1,786
On balances due to other banks	406	406	270	270
Other	948	948	732	732
Total	**3,510**	**3,355**	**2,953**	**2,788**

6 COMMISSION AND FEE INCOME

Commission and fee income is comprised of the following:

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
Money transfers	6,412	6,412	5,871	5,873
Cash withdrawals	420	420	472	472
Commission income from payment cards	1,884	1,884	1,434	1,434
Revenue from customer asset management and brokerage commissions	1,973	167	1,626	165
Account opening	205	205	209	209
Commission income from loans	680	680	506	506
Other	613	581	538	538
Total	**12,187**	**10,349**	**10,656**	**9,197**

7 COMMISSION AND FEE EXPENSE

Commission and fee expense is comprised of the following:

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
Banks	1,041	1,041	1,427	1,429
Brokerage commission	391	43	343	27
Cash withdrawals	25	24	17	17
Credit card expenses	648	648	563	563
Other commission	35	19	55	53
Total	**2,140**	**1,775**	**2,405**	**2,089**

8 PROFIT FROM TRADING WITH FINANCIAL INSTRUMENTS, NET

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
Foreign exchange profit from conversion of currencies	5,966	5,963	2,985	2,982
(Loss)/income from foreign currency revaluation	(513)	(542)	40	22
Profit from deals with trading securities	1,599	192	2,610	673
Profit from revaluation of securities	403	403	5	2
Loss from deals with other financial instruments	(10)	(10)	(208)	(208)
Other	(80)	(93)	960	960
Total net gain from trading with securities and foreign currencies	**7,365**	**5,913**	**6,392**	**4,431**

Foreign currency contracts

The table below summarizes the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2004. The resultant unrealized gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognized in the income statement and in prepaid expenses and accrued income and other liabilities.

	Notional amount		Fair value			
	2004	2003	2004		2003	
			Assets	Liabilities	Assets	Liabilities
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Forward contracts	40,430	82,548	542	(156)	1,222	(134)

As of 31 December 2004 there were 104 outstanding foreign exchange agreements (2003: 71).

9 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 2004 and 2003, the Bank employed on average 578 and 561 employees, respectively.

Administrative expense is comprised of the following:

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
Salaries to Board of Directors and Council	857	850	760	760
Staff salaries	4,354	4,191	3,562	3,397
Social tax	1,044	1,015	889	852
Accruals for annual leave	60	60	255	255
Communications	1,102	1,080	1,158	1,142
Professional fees	169	141	186	186
Advertising and marketing	256	255	260	260
Charitable donations	531	531	358	358
Utilities and maintenance	130	64	111	111
Representation	92	95	98	78
Travel	221	205	187	187
Rent	241	240	324	266
Stationery	86	86	74	74
Training	36	36	44	44
Security	19	19	8	8
Property tax	106	106	92	92
Other	2,804	2,691	1,648	1,540
Total	**12,108**	**11,665**	**10,014**	**9,610**

10 AMORTIZATION AND DEPRECIATION CHARGES

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
Property and equipment depreciation	1,249	1,219	1,220	1,114
Leasehold refurbishments written off	-	-	67	67
Goodwill amortization	-	-	429	429
Intangible assets amortization	323	323	349	349
Total	**1,572**	**1,542**	**2,065**	**1,959**

11 IMPAIRMENT LOSSES

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
Impairment losses:				
Loans and advances to non-banking customers	(601)	(601)	(238)	(238)
Goodwill	(6)	(6)	-	-
Investment securities	-	-	(81)	(81)
Other assets	(1)	(1)		
	(608)	**(608)**	**(319)**	**(319)**
Reversals of impairment losses:				
Loans and advances to non-banking customers	578	578	353	353
Investment securities	31	31	-	-
Net impairment losses	**1**	**1**	**34**	**34**

The following table reflects movements in the Bank's allowance account for impairment losses on loans at the end of the reporting years:

	Loans	Investments	Other	Total
Allowance for impairment losses as of 31 December 2002	**1,250**	**1,465**	**6**	**2,721**
Reversal of impairment losses	(299)	-	-	(299)
Net impairment losses	238	81	-	319
Written off assets	(44)	-	(5)	(49)
Currency revaluation	(64)	(130)	-	(194)
Allowance as of 31 December 2003	**1,081**	**1,416**	**1**	**2,498**
Reversal of impairment losses	(576)	(31)	-	(607)
Net impairment losses	601	-	1	602
Written off assets	(61)	-	(1)	(62)
Currency revaluation	(5)	(66)	-	(71)
Allowance as of 31 December 2004	**1,040**	**1,319**	**1**	**2,360**

12 TAXATION

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

	2004 Group LVL'000	2004 Bank LVL'000	2003 Group LVL'000	2003 Bank LVL'000
Profit before taxation	**16,510**	**16,421**	**9,952**	**9,843**
Theoretically calculated tax at tax rate of 15% [2003: 19%]	2,477	2,463	1,890	1,870
Expenses not deductible for tax purposes	1,918	1,918	276	276
Non-taxable income	(2,096)	(2,096)	-	(448)
Relief for donations	(445)	(445)	(296)	(293)
Effect of different tax rates in other countries	91	-	(235)	-
Effect of changing Corporate tax rates	-	-	-	121
Tax charge	**1,945**	**1,840**	**1,635**	**1,526**

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

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Temporary difference on depreciation of fixed assets	721	721	690	690
Temporary difference on collective portfolio allowance for impairment losses on loans	-	-	(41)	(41)
Temporary difference on accruals for vacations and bonuses	(248)	(248)	(99)	(99)
Temporary differences from revaluation of other financial assets and liabilities	42	42	(16)	(16)
Deferred tax liability	**515**	**515**	**534**	**534**

13 CASH AND BALANCES WITH CENTRAL BANKS

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Cash	4,980	4,976	4,746	4,746
Deposits with the Bank of Latvia	19,290	19,290	14,959	14,959
Total cash and deposits with the Bank of Latvia	**24,270**	**24,266**	**19,705**	**19,705**

Deposits with the Bank of Latvia represent the balance outstanding on 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 4% (until 24 July 2004: 3%) of the average monthly balance (calculated at four intervals during the month) of the following items:

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

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average 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.

14 BALANCES DUE FROM CREDIT INSTITUTIONS

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Demand placements with:				
Latvian commercial banks	5,005	5,005	7,774	7,774
OECD credit institutions	207,820	207,818	172,540	172,540
Non-OECD credit institutions	11,556	11,155	8,598	8,593
Total demand placements, net	**224,381**	**223,978**	**188,912**	**188,907**
Term placements with:				
Latvian commercial banks	23,883	23,883	2,543	2,543
OECD credit institutions	37,661	37,661	19,204	19,204
Non-OECD credit institutions	1,349	1,349	3,008	3,008
Amounts receivable under reverse repurchase agreements	-	-	*2,467*	*2,467*
Total term placements	**62,893**	**62,893**	**24,755**	**24,755**
Total balances due from credit institutions, net	**287,274**	**286,871**	**213,667**	**213,662**

During 2004 the average interest rate received on balances due from credit institutions was 1.63% per annum (during 2003 - 1.23%)

The largest balances due from credit institutions as of 31 December 2004 were as follows:

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Vereins und Westbank (Hamburg)	61,944	61,944
Erste bank (Austria)	25,800	25,800
NORD/LB (London)	38,700	38,700
BBVA (Madrid)	25,319	25,319
HSBC Bank (USA)	13,790	13,790
Deutsche Bank	10,900	10,900
ING Bank (Amsterdam)	16,450	16,450
WGZ Bank Dusseldorf	15,480	15,480
Bank of Montreal (London)	12,900	12,900
Sberbank Moscow	7,317	7,317
HVB Bank (Latvia)	7,160	7,160
Nordea Bank Finland Plc Latvia branch	6,000	6,000
Total	**241,760**	**241,760**

As at 31 December 2004 and 2003, term deposits and balances to banks and other financial institutions which individually comprised more than 10% of deposits and balances received to banks and other financial institutions were as follows:

	31 December 2004 Group LVL'000	31 December 2003 Group LVL'000
Vereins und Westbank (Hamburg)	61,944	59,896
Erste bank (Austria)	25,800	27,050
NORD/LB (London)	38,700	13,525
HSBC Bank (USA)	13,790	20,246
Total	**140,234**	**120,717**

15 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

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

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Private companies, including:	158,686	141,823	139,242	112,780
Amounts receivable under reverse repurchase agreements	*30,640*	*25,811*	*40,791*	*37,870*
Loans secured by securities	*13,570*	-	*21,375*	-
Loans to private individuals	34,365	33,887	22,831	22,688
Total gross loans and advances to non-banking customers	**193,051**	**175,710**	**162,073**	**135,468**
Specific loan impairment loss (see Note 11)	(1,040)	(1,040)	(811)	(811)
Collective portfolio impairment loss (see Note 11)	-	-	(270)	(270)
Loans and advances to non-banking customers, net	**192,011**	**174,670**	**160,992**	**134,387**
Loans and advances secured by cash deposits	(2,437)	(2,437)	(1,940)	(1,940)
Loans and advances subject to credit risk, net	**189,574**	**172,233**	**159,052**	**132,447**

15 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS (CONTINUED)

In 2004, the weighted average interest rates for loans were 8,62 % (2003: 8.08%) and 6.73 % (2003: 6.67%) for short-term and long-term loans, respectively.

Significant credit exposures

As at 31 December 2004 and 2003 the Bank had 1 and 7 borrowers or groups of related borrowers, respectively, whose loan balances exceeded more than 10% of loans to customers. The gross value of these loans as of 31 December 2004 and 2003 were LVL 25,800 thousand and LVL 18,041 thousand respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity (see Note 33 for definition of equity). As of 31 December 2004 the Bank was in compliance with this requirement.

The amount of loans, for which interest is not accrued, is LVL 1,497 thousand as of 31 December 2004 (2003: LVL 599 thousand).

Collateral security

As of 31 December 2004, amounts receivable under reverse repurchase agreements were collateralized by the following securities:

	Fair value 2004 LVL '000	Fair value 2003 LVL '000
US Treasuries	26,062	41,102
	26,062	**41,102**

The loan maturity analysis is as follows:

	Up to 1 months LVL'000	1 to 3 months LVL'000	3 to 12 months LVL'000	1 to 5 years LVL'000	More than 5 years LVL'000	Pledged LVL'000	Total LVL'000
31 December 2004							
Commercial & industrial companies	57,213	12,360	14,451	25,014	44,305	4,434	157,777
Individuals	1,385	65	1,195	6,883	24,706	-	34,234
Total	**58,598**	**12,425**	**15,646**	**31,897**	**69,011**	**4,434**	**192,011**
31 December 2003							
Commercial & industrial companies	47,658	26,240	6,904	29,789	23,447	4,217	138,255
Individuals	483	39	1,578	7,085	13,552	-	22,737
Total	**48,141**	**26,279**	**8,482**	**36,874**	**36,999**	**4,217**	**160,992**

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

	31 December 2004 LVL'000	31 December 2003 LVL'000
Latvia	114,708	73,625
Non-residents	77,303	87,367
Total	**192,011**	**160,992**

16 TRADING SECURITIES

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Government bonds:				
German government bonds	-	-	3,394	3,394
Russian government bonds	-	-	1,051	1,051
	-	-	4,445	4,445
Shares and non-fixed income securities:				
Shares and non-fixed income securities listed on the Moscow stock exchange	467	467	302	302
Shares listed on the Riga stock exchange	499	499	259	259
Shares listed on the New York stock exchange	2	-	2	-
	968	966	563	561
Total	**968**	**966**	**5,008**	**5,006**

Prices on shares listed the respective Stock Exchanges used to recognize fair value are based on the closing bid price at 31 December 2004. At 31 December 2003, shares listed on the Riga and Moscow Stock Exchange were recognized based on cost less impairment.

17 INVESTMENT SECURITIES

Securities available-for-sale:

	31 December 2004 Group LVL'000	31 December 2003 Group LVL'000
Debt securities at fair value		
United States government bonds		
Cost	*7,786*	*8,163*
Revaluation	*324*	*25*
Accrued coupon	*52*	*54*
Total	8,162	8,242
US corporate bonds	516	541
Equity securities		
- Unlisted	515	158
Total securities available-for-sale	**9,193**	**8,941**

Unlisted available for sale equity securities include SWIFT shares, shares of Riga Stock Exchange and equity investments of the Group in different private entities in Latvia.

Securities held -to-maturity:

	31 December 2004 Group LVL'000	31 December 2003 Group LVL'000
Listed debt securities – at amortized cost		
United States government bonds	25,799	-
Argentina government bonds – cost	*1,814*	*1,903*
Provision for impairment of Argentina government bonds	*(1,319)*	*(1,416)*
Carrying value of Argentina government bonds	495	487
US corporate bonds	8,501	10,573
Great Britain corporate bonds	11,910	9,764
Portugal corporate bonds	-	2,699
German corporate bonds	7,857	5,560
Luxemburg corporate bonds	7,736	5,419
Swiss corporate bonds	-	2,722
Austrian corporate bonds	1,113	1,186
Sweden corporate bonds	-	2,725
Norwegian corporate bonds	2,609	2,724
Japan corporate bonds	2,553	2,657
Holland corporate bonds	-	2,707
Australian corporate bonds	3,625	3,800
Total securities held-to-maturity	**72,198**	**53,023**
Total investment securities	**81,391**	**61,964**

Investment securities at 31 December 2004 have been split into available-for-sale and held-to-maturity based on whether management had positive intent to hold certain securities until maturity at the date of purchase.

Given the fact that a restructuring of the 2031 Argentina Eurobond is not likely, management decided to swap the 2003 Eurobonds with 2031 Eurobonds in June 2002. Provision for impairment of the Eurobond 2031 has been made at 68% of their face value. Management considers that the estimates that have been used are prudent.

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

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to12 months LVL'000	1 – 5 years LVL'000	Greater than 5 years LVL'000	Pledged LVL'000	Total LVL'000
31 December 2004							
United States government bonds	-	-	-	25,799	8,162	-	33,961
Argentina government bonds	-	-	-	-	495	-	495
US corporate bonds	-	-	4,926	3,575	-	516	9,017
Austrian corporate bonds	-	-	1,113	-	-	-	1,113
Great Britain corporate bonds	-	-	-	6,713	5,197	-	11,910
German corporate bonds	-	-	5,252	2,605	-	-	7,857
Luxemburg corporate bonds	-	-	-	2,584	5,152	-	7,736
Norwegian corporate bonds	-	-	-	-	2,609	-	2,609
Japan corporate bonds	-	-	-	-	2,553	-	2,553
Australian corporate bonds	-	-	-	-	3,625	-	3,625
	-	**-**	**11,291**	**41,276**	**27,793**	**516**	**80,876**
31 December 2003							
German government bonds	-	-	-	-	3,394	-	3,394
Russian government bonds	-	-	-	-	1,051	-	1,051
United States government bonds	-	-	-	-	8,242	-	8,242
Argentina government bonds	-	-	-	-	487	-	487
US corporate bonds	-	-	5,955	4,618	-	541	11,114
Austrian corporate bonds	-	-	-	1,186	-	-	1,186
Great Britain corporate bonds	-	-	-	4,320	5,444		9,764
Portugal corporate bonds	-	-	-	-	2,699	-	2,699
German corporate bonds	-	-	-	5,560	-	-	5,560
Luxemburg corporate bonds	-	-	-	5,419	-	-	5,419
Swiss corporate bonds	-	1,106	-	1,616	-	-	2,722
Sweden corporate bonds	-	-	-	-	2,725	-	2,725
Norwegian corporate bonds	-	-	-	-	2,724	-	2,724
Japan corporate bonds	-	-	-	-	2,657	-	2,657
Holland corporate bonds	-	-	-	2,707	-	-	2,707
Australian corporate bonds	-	-	-	-	3,800	-	3,800
Total	**-**	**1,106**	**5,955**	**25,426**	**33,223**	**541**	**66,251**

18 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

As of 31 December 2004 and 2003, 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 2004		31 December 2003	
RB Securities Ltd	Financial Services	3 Chrysanthou Mylona street, Limassol, Cyprus	99.99%	6,871	99.99%	4,994
SIA "DAM Property Investments"	Construction	Balasta dambis 1, Riga, Latvia	85%	-	-	-
SIA "RB Investments"	Investments	Brivibas iela 54. Riga, Latvia	100%	1,019	-	-
SIA "Centrus"	Construction	Brivibas iela 54. Riga, Latvia	100%	237		-
SIA "RB Vidzeme"	Agriculture	Brivibas iela 54. Riga, Latvia	100%	46	-	-
Total investments in subsidiaries				**8,173**		**4,994**

	RB Securities Ltd	DAM Property Investments SIA	RB Vidzeme SIA	RB Investments SIA	Centrus SIA	Total
Investment value as of 31 December 2003	**4,994**	**-**	**-**	**-**	**-**	**4,994**
Purchase	-	20	50	1,000	246	1,316
Cash received from sale/liquidation	-	(3)	-	-	-	(3)
Revaluation	2,107	(17)	(4)	19	(9)	2,096
Foreign currency translation	(230)	-	-	-	-	(230)
Investment value as of 31 December 2004	**6,871**	**-**	**46**	**1,019**	**237**	**8,173**

The balance of LVL 12,000 represents 50% investment by RB Vidzeme SIA in Rika Agro SIA.

On 1 February 2005, the Bank decided to increase the share capital of RB Investments SIA by LVL 1 million.

At 31 December 2004, the Group had a minority interest balance of nil, representing LVL 3,000 share capital offset by LVL 3,000 of minority interest in losses.

19 INTANGIBLE ASSETS

Intangible assets of the Bank are comprised as follows:

	Goodwill	Software	Work in progress	Advance payments for software	Total
Historical Cost					
Balance at 31 December 2003	**2,181**	**1,745**	**2,178**	**135**	**6,239**
Elimination of accumulated amortisation of goodwill (see note 1h)	(1,236)	-	-	-	(1,236)
Additions	48	268	165	115	596
Transfers	-	-	70	(70)	-
Disposals	-	-	-	(3)	(3)
Balance at 31 December 2004	**993**	**2,013**	**2,413**	**177**	**5,596**
Amortization					
Balance at 31 December 2003	**1,236**	**1,127**	**-**	**-**	**2,363**
Elimination of accumulated amortisation of goodwill (see note 1h)	(1,236)	-	-	-	(1,236)
Amortization charge for the year	-	323	-	-	323
Balance at 31 December 2004	**-**	**1,450**	**-**	**-**	**1,450**
Impairment loss	(6)	-	-	-	(6)
Net book value					
At 31 December 2003	**945**	**618**	**2,178**	**135**	**3,876**
At 31 December 2004	**987**	**563**	**2,413**	**177**	**4,140**

Intangible assets of the Group are comprised as follows:

	Goodwill	Software	Work in progress	Advance payments for software	Total
Historical Cost					
Balance at 31 December 2003	**2,181**	**1,745**	**2,178**	**135**	**6,239**
Elimination of accumulated amortisation of goodwill (see note 1h)	(1,236)	-	-	-	(1,236)
Additions	186	269	165	115	735
Transfers	-	-	70	(70)	-
Currency revaluation	-	-	-	-	-
Disposals	-	-	-	(3)	(3)
Balance at 31 December 2004	**1,131**	**2,014**	**2,413**	**177**	**5,735**
Amortization					
Balance at 31 December 2003	**1,236**	**1,127**	**-**	**-**	**2,363**
Elimination of accumulated amortisation of goodwill (see note 1h)	(1,236)	-	-	-	(1,236)
Amortization charge for the year	-	323	-	-	323
Disposals	-	-	-	-	-
Balance at 31 December 2004	**-**	**1,450**	**-**	**-**	**1,450**
Impairment loss	(6)	-	-	-	(6)
Net book value					
At 31 December 2003	**945**	**618**	**2,178**	**135**	**3,876**
At 31 December 2004	**1,125**	**564**	**2,413**	**177**	**4,279**

20 PROPERTY AND EQUIPMENT

Property and equipment of the Bank is comprised as follows:

	Building	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation							
31 December 2003	**7,204**	**92**	**1,013**	**4,461**	**64**	**255**	**13,089**
Additions	-	-	397	751	208	41	1,397
Disposals	-	(92)	(85)	(278)	(1)	-	(456)
Transfers	-	-	26	13	(63)	24	-
31 December 2004	**7,204**	**-**	**1,351**	**4,947**	**208**	**320**	**14,030**
Accumulated depreciation							
31 December 2003	**711**	**-**	**466**	**2,575**	**-**	**99**	**3,851**
Charge for the period	139	-	201	831	-	48	1,219
Disposals	-	-	(54)	(277)	-	-	(331)
31 December 2004	**850**	**-**	**613**	**3,129**	**-**	**147**	**4,739**
Net book value							
31 December 2003	**6,493**	**92**	**547**	**1,886**	**64**	**156**	**9,238**
31 December 2004	**6,354**	**-**	**738**	**1,818**	**208**	**173**	**9,291**

Property and equipment of the Group is comprised as follows:

	Buildings	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation							
31 December 2003	**7,204**	**92**	**1,123**	**4,828**	**64**	**255**	**13,566**
Additions	-	12	446	789	208	41	1,496
Disposals	-	(100)	(142)	(282)	(1)	-	(525)
Currency revaluation	-	-	-	-	-	-	-
Transfers	-	-	26	13	(63)	24	-
31 December 2004	**7,204**	**4**	**1,453**	**5,348**	**208**	**320**	**14,537**
Accumulated depreciation							
31 December 2003	**711**	**-**	**495**	**2,942**	**-**	**99**	**4,247**
Charge for the period	139	-	223	839	-	48	1,249
Disposals	-	-	(77)	(279)	-	-	(356)
31 December 2004	**850**	**-**	**641**	**3,502**	**-**	**147**	**5,140**
Net book value							
31 December 2003	**6,493**	**92**	**628**	**1,886**	**64**	**156**	**9,319**
31 December 2004	**6,354**	**4**	**812**	**1,846**	**208**	**173**	**9,397**

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

21 PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income are comprised of the following:

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Accrued interest income from loans	697	541	446	352
Accrued interest income on balances due from banks	84	84	64	64
Accrued income from forward deals	542	542	1,222	1,222
Other accrued income	116	78	8	8
Prepaid expenses	290	262	236	204
Total	**1,729**	**1,507**	**1,976**	**1,850**

22 OTHER ASSETS

Other assets are comprised of the following:

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Traveler cheques	97	97	73	73
Advances for goods and services	33	33	43	43
Other assets	1,658	1,062	339	338
Non-interest bearing deposit with SWIFT	61	61	58	58
Cash advances to employees	30	30	5	5
	1,879	**1,283**	**518**	**517**
Provision for other assets (Note 11)	(1)	(1)	(1)	(1)
Total	**1,878**	**1,282**	**517**	**516**

23 BALANCES DUE TO OTHER BANKS

Balances due to credit institutions are comprised of the following:

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Balances due to credit institutions registered in Latvia	11,957	11,957	3,045	3,045
Balances due to credit institutions registered in OECD countries	1,715	1,715	1,550	1,550
Balances due to credit institutions registered in non-OECD countries	1,250	1,250	2,896	2,896
Total	**14,922**	**14,922**	**7,491**	**7,491**

The largest amounts due to banks were as follows:

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Latvijas Tirdzniecības banka	10,300	10,300
EBRD	1,617	1,617
Banka Baltikums	1,269	1,269
Total	**13,186**	**13,186**

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

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Demand deposits	2,769	2,769	2,789	2,789
Term deposits	12,153	12,153	4,702	4,702
Total	**14,922**	**14,922**	**7,491**	**7,491**

24 DUE TO CUSTOMERS

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Demand deposits from				
Municipality	1	1	2	2
State enterprises	4	4	14	14
Private companies	19,503	20,476	13,415	13,216
Individuals	23,387	23,387	18,199	18,197
Private companies non-residents	425,496	413,963	280,107	263,215
Individuals non-residents	34,186	34,186	35,625	31,327
Total demand deposits	**502,577**	**492,017**	**347,362**	**325,971**
Term deposits				
Private companies	4,210	4,055	1,087	1,087
Individuals	9,320	9,320	5,869	5,869
Private companies non-residents	19,397	19,397	68,700	68,618
Amounts payable under repurchase agreements	-	-	*6,241*	-
Individuals non-residents	4,081	4,081	12,075	12,075
Total term deposits	**37,008**	**36,853**	**87,731**	**87,649**
Total due to customers	**539,585**	**528,870**	**435,093**	**413,620**

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

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to12 months LVL'000	1 to 5 years LVL'000	Greater than 5 year LVL'000	Total LVL'000
31 December 2004						
Private companies	2,635	933	406	159	77	4,210
Individuals	902	2,995	3,351	2,065	7	9,320
Non-residents	9,354	7,065	4,360	2,699	-	23,478
Total	**12,891**	**10,993**	**8,117**	**4,923**	**84**	**37,008**
31 December 2003						
Private companies	551	300	169	39	28	1,087
Individuals	648	569	3,063	1,589	-	5,869
Non-residents	62,964	7,764	7,627	2,420	-	80,775
Total	**64,163**	**8,633**	**10,859**	**4,048**	**28**	**87,731**

In 2004 the weighted average interest rate on term deposits was 1.98% and 3.44% (2003: 1.22% and 3.51%) for short and long-term deposits respectively.

As of 31 December 2004, the Group maintained customer deposit balances of LVL 5,660 thousand (2003: LVL 12,237 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Bank.

25 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's policy is to hedge its exposure to fair value changes of the available for sale US Treasury securities (see note 3 for more details on risk management).

	Contract amount LVL'000	31 December 2004 Fair value Bank LVL'000	Contract amount LVL'000	31 December 2003 Fair value Bank LVL'000
Derivatives designated as fair value hedges				
Treasury futures	**13,313**	**287**	**8,115**	**212**

26 DEFERRED INCOME AND ACCRUED EXPENSE

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Deferred income	56	56	76	76
Accrued interest expense on				
Deposits	366	365	382	352
Current tax liability	331	327	162	147
Deferred tax liability (see Note 12)	515	515	534	534
Other	2,535	2,290	1,179	1,162
Total	**3,803**	**3,553**	**2,333**	**2,271**

27 PAID-IN SHARE CAPITAL

As of 31 December 2004 the authorized and issued share capital comprised of 20,757,375 (2003: 20,551,375) shares with a par value of LVL 1 per share, paid share capital comprised of 20,757,375 (2003: 20,548,875) shares. All shares are distributed as follows:

	31 December 2004 LVL'000	31 December 2003 LVL'000
Companies non-residents	571	571
Members of the Board	-	8
Private persons	20,186	19,972
Total	**20,757**	**20,551**

The largest shareholders of the Bank as of 31 December 2004:

	31 December 2004 Paid capital LVL' 000	31 December 2004 Percentage holding
Leonid Esterkin	7,429	35.79
Tony Levin	5,428	26.15
Arkady Suharenko	3,888	18.73
Others	4,012	19.33
Total	**20,757**	**100.00**

On 23 August 2004 the bank issued 206 thousand shares with a par value of LVL 1 to members of the Board and employees for LVL 329 thousand.

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the Meeting on 11 March 2005, a dividend in respect of 2004 of LVL 0.144 per share (2003: actual dividend per share LVL 0.095) amounting to total of LVL 2,989 thousand (2003: actual LVL 1,952 thousand) is to be proposed. The financial statements of 2004 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 2005.

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.

	2004 Bank	2003 Bank
Net profit attributable to shareholders	**14,581,000**	**8,317,000**
Ordinary shares as at 1 January	20,548,875	20,343,875
Purchase of treasury shares	2,500	-
Number of ordinary shares issued during the year	206,000	205,000
Ordinary shares as at 31 December	20,757,375	20,548,875
Weighted average number of ordinary shares outstanding during the year	**20,565,916**	**20,408,708**
Basic earnings per share (expressed in LVL per share)	**0.71**	**0.41**

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

29 MEMORANDUM ITEMS

Funds under trust management represent securities and other assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such securities. The Group is not subject to interest, credit and currency risk with respect of these securities in accordance with the agreements with customers. All securities are stated at their market value.

Customers' assets of LVL 4,878 thousand held by the Group under custody were used to obtain the funding reflected under the repurchase payables of LVL 4,828 thousand described in note 15.

Legal Proceedings. As of 31 December 2004 there were 5 legal proceedings outstanding against the Group. Total amount disputed in these proceedings is LVL 883 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. (2003: 13 outstanding legal proceedings against the Bank).

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

30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000	31 December 2003 Group LVL'000	31 December 2003 Bank LVL'000
Cash	4,980	4,976	4,746	4,746
Balances due from the Bank of Latvia	19,290	19,290	14,959	14,959
Demand deposits due from other banks	224,381	223,978	188,912	188,907
(Demand deposits due to other banks)	(2,769)	(2,769)	(2,789)	(2,789)
Total	**245,882**	**245,475**	**205,828**	**205,823**

31 RELATED PARTY TRANSACTIONS

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

Loans and advances issued to related parties were as follows:

	31 December 2004 Amount LVL'000	31 December 2003 Amount LVL'000
Loans:		
Loans at the beginning of year	1,997	1,074
Loans to related parties issued during year	14,940	2,104
Transfers	-	229
Loan repayment during the year	(14,533)	(1,410)
Loans to management as at end of year	2,404	1,997
Interest income earned	71	37
Deposits		
Deposits at the beginning of year	1,822	53
Deposits received during year	447,296	2,893
Transfers	-	273
Deposits repaid during the year	(446,292)	(1,397)
Deposits at the end of year	2,826	1,822
Interest expense on deposits	92	73
Guarantees and credit lines issued by the Group for management and Directors	270	262

No impairment losses have been recognized in respect of loans or guarantees given to related parties (2003: nil).

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

As of 31 December 2004, the Bank was in compliance with the regulations under the Law On Credit Institutions requiring that the total of non-zero risk credit exposures to related parties may not exceed 15% of the Bank's equity, as defined in Note 33.

32 FOREIGN EXCHANGE EXPOSURES

The following table provides analysis of the Bank's assets, liabilities and applicable memorandum items by currency as of 31 December 2004:

				31 December 2004		31 December 2003	
	Assets	Liabilities	Net future open position	Open position	Percent of share capital	Open position	Percent of share capital
USD	396,541	389,925	(7,420)	(804)	(2.15)	(703)	(2.79)
RUB	11,089	10,784	-	305	0.82	(323)	(1.28)
GBP	4,140	4,233	-	(93)	(0.25)	(745)	(2.96)
EUR	107,944	106,281	(688)	975	2.61	380	1.51
LTL	60	29	-	31	0.08	149	0.59
Other (short)	1,532	1,596	-	(64)	(0.17)	(47)	(0.19)
Other (long)	1,624	1,540	-	84	0.22	397	1.58
Total	**522,930**	**514,388**	**(8,108)**	**434**			
Total short position					**(961)**		**(1,818)**
Total long position					**1,395**		**926**
Total open position					**3.73%**		**7.22%**
Capital requirement for foreign currency exchange risk					**52**		**131**

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

As of 31 December 2004, the Bank was in compliance with the Law on Credit Institutions regulatory requirements requiring that open positions in any individual foreign currency may not exceed 10% of Bank's equity (see Note 33 for the definition of Bank's equity under the Finance and Capital Markets Commission guidelines), and that the total foreign currency open position may not exceed 20% of the Bank's equity.

33 CAPITAL ADEQUACY

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

Based on the requirements set forth by the Finance and Capital Market Commission in respect to share capitals of banks, the Bank's share capital to be utilized in the capital adequacy ratio as of 31 December 2004 has been calculated as follows:

Bank

Tier 1	
- paid-in share capital	20,757
- share premium	151
- reserve capital	16
- accumulated profit	8,275
- less: treasury shares	-
- profit of the year 2004	14,581
Deductions from the capital base	
Intangible assets	(4,140)
Dividends declared	(2,989)
Total Tier 1	**36,651**
70% of property revaluation reserve	445
Assets available-for-sale revaluation reserve	(23)
Total Tier 2	**422**
The Bank's equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission	**37,073**

Group

Tier 1	
- paid-in share capital	20,757
- share premium	151
- reserve capital	16
- accumulated profit	8,275
- less: treasury shares	-
- profit of the year 2004	14,568
Deductions from the capital base	
Intangible assets	(4,279)
Dividends declared	(2,989)
Total Tier 1	**36,499**
70% of property revaluation reserve	636
Assets available-for-sale revaluation reserve	(23)
Total Tier 2	**613**
The Group's equity to be utilized for the capital adequacy calculation under the Basle Agreement	**37,112**

As of 31 December 2004, 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 for the Bank according to the Finance and Capital Market Commission requirements is presented in the following table:

	Assets 31 December 2004	Risk weighting %	Risk weighted assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	24,266	0%	-
Balances due from governments and central banks within A zone countries	33,961	0%	-
Loans and advances secured by deposits and A zone government bonds	39,137	0%	-
Balances due from credit institutions within A zone countries	295,768	20%	59,154
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	11,686	50%	5,843
Accrued income and prepayments	889	100%	889
Balances due from governments and central banks within B zone countries	495	100%	495
Balances due from credit institutions within B zone countries	12,510	100%	12,510
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	149,478	100%	149,478
Shares and other non-fixed income securities and investments in subsidiaries	8,313	100%	8,313
Property and equipment	9,291	100%	9,291
Other assets	1,282	100%	1,282
Total assets	**587,076**		**247,255**
Memorandum items			
Letters of credit	2,661	20%	532
Letters of credit with zero risk weighted	694	0%	-
Credit commitments	14,459	50%	7,230
Credit commitments with zero risk weighted	1,099	0%	-
Outstanding guarantees with 100% risk weighted	4,719	100%	4,719
Outstanding guarantees with zero risk weighted	3,223	0%	-
Total assets and memorandum items for capital adequacy			**259,736**
Capital requirement for credit risk of banking book			**20,779**
Capital requirement for position risk of trading book			**135**
Capital requirement for deal partners			**60**
Capital requirement for foreign currency exchange risk			**52**
Capital charges covered by own funds			**16,047**
Capital adequacy ratio			**14.11%**

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 2004 Bank's capital adequacy according to the Finance and Capital Market Commission's requirements was 14.11%. The Law On Credit Institutions and Finance and Capital Market Commission's requirements in respect of minimum capital adequacy are 8%.

The capital adequacy of the Group under the Basle agreement as of 31 December 2004 is calculated as follows:

	Assets As of 31 December 2004	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	24,270	0%	-
Claims on OECD central governments and central banks	33,961	0%	-
Loans and advances secured by deposits and OECD countries government bonds	43,936	0%	-
Balances due from credit institutions within OECD area	296,168	20%	59,234
Balances due from credit institutions within non-OECD area	12,513	20%	2,503
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	11,686	50%	5,843
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	162,020	100%	162,020
Claims on central governments outside the OECD (unless denominated in national currency)	495	100%	495
Shares and other non-fixed income securities and investments in subsidiaries	527	100%	527
Property and equipment	9,397	100%	9,397
Accrued income and prepayments	1,111	100%	1,111
Other assets	1,878	100%	1,878
Total assets	**597,962**		**243,008**
Memorandum items			
Letters of credit	2,661	20%	532
Letters of credit with zero risk weighted	694	0%	-
Credit commitments	14,459	50%	7,230
Credit commitments with zero risk weighted	1,099	0%	-
Outstanding guarantees with 100% risk weighted	4,719	100%	4,719
Outstanding guarantees with zero risk weighted	3,223	0%	-
Total assets and memorandum items for capital adequacy			**255,489**
Capital requirement for credit risk of banking book			**20,439**
Capital requirement for position risk of trading book			**135**
Capital requirement for deal partners			**64**
Capital requirement for foreign currency exchange risk			**52**
Total share capital for capital adequacy			**16,422**
Capital adequacy ratio			**14.35%**

The Group's risk based capital adequacy as of 31 December 2004 was 14.35%, 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 2004 was the following:

LVL'000	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Pledged	Total
Assets							
Cash and deposits with the Bank of Latvia	24,270	-	-	-	-	-	24,270
Balances due from credit institutions	224,381	46,380	5,290	-	-	11,223	287,274
Loans and advances to non-banking customers	58,598	12,425	15,646	31,897	69,011	4,434	192,011
Government bonds and other fixed income securities	-	-	11,291	41,276	27,793	516	80,876
Shares and other non-fixed income securities	968	-	-	-	527	-	1,495
Intangible assets		-	-	-	4,279	-	4,279
Property and equipment	-	-	-	-	9,397	-	9,397
Other assets	1,878	-	-	-	-	-	1,878
Prepayments and accrued income	659	570	500	-	-	-	1,729
Total assets	**310,754**	**59,375**	**32,727**	**73,173**	**111,007**	**16,173**	**603,209**
Less prepaid expenses	**(290)**	**-**	**-**	**-**	**-**	**-**	**(290)**
Total assets for calculation of liquidity	**310,464**	**59,375**	**32,727**	**73,173**	**111,007**	**16,173**	**602,919**
Liabilities							
Balances due to other banks	2,769	236	-	1,617	-	10,300	14,922
Due to customers	515,468	10,993	8,117	4,923	84	-	539,585
Derivative financial instruments	-	287	-	-	-	-	287
Other liabilities	232	-	-	-	-	-	232
Deferred income and accrued expense	3,803	-	-	-	-	-	3,803
Total shareholders' equity	-	-	-	-	44,380	-	44,380
Total liabilities and shareholders' equity	**522,272**	**11,516**	**8,117**	**6,540**	**44,464**	**10,300**	**603,209**
Net liquidity	**(211,808)**	**47,859**	**24,610**	**66,633**	**66,543**	**5,873**	**(290)**
Total liquidity	**(211,808)**	**(163,949)**	**(139,339)**	**(72,706)**	**(6,163)**	**(290)**	

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 2004 was as follows:

LVL'000	Up to 1 month	1 - 3 months	3 – 12 months	1 - 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with the Bank of Latvia	19,290	-	-	-	-	4,980	24,270
Balances due from credit institutions	216,626	53,875	7,947	-	1,064	7,762	287,274
Loans and advances to non-banking customers	61,535	12,425	15,646	31,897	69,011	1,497	192,011
Government bonds and other fixed income securities	-	-	11,291	41,792	27,298	495	80,876
Shares and other non-fixed income securities	-	-	-	-	-	1,495	1,495
Intangible assets	-	-	-	-	-	4,279	4,279
Property and equipment	-	-	-	-	-	9,397	9,397
Other assets	-	-	-	-	-	1,878	1,878
Prepayments and accrued income	-	-	-	-	-	1,729	1,729
Total assets	**297,451**	**66,300**	**34,884**	**73,689**	**97,373**	**33,060**	**603,209**
Liabilities							
Balances due to credit institutions	1,304	7,686	2,850	1,617	-	1,465	14,922
Deposits from the public	130,493	10,993	8,117	4,923	84	384,975	539,585
Derivatives	-	-	-	-	-	287	287
Other liabilities	-	-	-	-	-	232	232
Deferred income and accrued expense	-	-	-	-	-	3,803	3,803
Total shareholders' equity	-	-	-	-	44,380	-	44,380
Total liabilities and shareholders' equity	**131,797**	**18,679**	**10,967**	**6,540**	**44,464**	**390,762**	**603,209**
Interest sensitivity gap	**165,654**	**47,621**	**23,917**	**67,149**	**52,909**	**(357,250)**	**-**

36 AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2004 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value LVL'000	2004 Average Effective Interest Rate	Value LVL'000	2003 Average Effective Interest Rate
Assets				
Balances due from credit institutions	298,802	1.66	200,631	1.23
Investments	80,381	3.45	61,319	3.60
Financial instruments held for trading	-	-	4,445	4.43
Reverse repurchase agreements	30,629	2.60	40,791	1.93
Loans to customers	159,885	6.63	119,602	6.48
Total interest bearing assets	**569,697**	**3.46**	**426,788**	**3.15**
Liabilities				
Deposits and balances from banks	13,457	3.45	6,061	2.13
Current accounts and deposits from customers	154,610	2.13	148,855	1.53
Total interest bearing liabilities	**168,067**	**2.23**	**154,916**	**1.55**