

**A/S RIETUMU BANKA**  
**Interim Condensed**  
**Consolidated and Bank**  
**Financial Statements**  
**for the six month period**  
**ended 30 June 2004**

*A/S Rietumu banka*  
*Interim Condensed Consolidated and Bank Financial Statements*  
*for the six month period ended 30 June 2004*

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*A/S Rietumu banka*  
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*for the six month period ended 30 June 2004*

## **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 joining the EU. Similarly, for Rietumu Banka the first 6 months of 2004 were very successful and promising from an operational, financial and strategic viewpoint. The Bank's financial performance is significantly better than expected and the Bank grew at a stable pace while maintaining high profitability. The Bank continued to improve its reputation as one of the best managed and stable financial institutions in the Baltic States. This success has been achieved while upholding the objectives of being a Bank for corporate customers with a conservative financial position. This approach allowed an increase of shareholders value without damaging the safety of the Bank and depositors.

### **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.

As was the case during 20023 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 10 branches in Riga and 2 branches outside Riga. The Bank's branches are located in business areas and they focus to offer competitive services to corporate customers. The Bank's 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 that are that have businesses that are located outside Latvia. Our focus has been on Estonian clients and Russian clients. Some small projects have been initiated in Belarus. Most lending outside Latvia is to existing clients of the Bank. The Bank also secured collateral pledges in all cases.

The program of crediting small to medium sized enterprises that was launched during the second half of 2002 continued to be very successful. The Bank had active mortgage advertizing campaigns during the first 6 months of the year. 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 Securites, the Bank's brokerage company, exceeded expectations. We expect RB Securities to continue its dynamic growth during the remainder of 2004.

## Financial results

	30 June 2004 (6 months)	31 December 2003	30 June 2003 (6 months)	31 December 2002	30 June 2002 (6 months)	31 December 2001
<b>At year end (Ls'000)</b>						
Total assets	535,810	477,024	420,478	377,912	337,066	313,676
Loans and advances to customers	180,676	160,992	104,780	92,033	103,562	75,742
Due to customers	481,783	435,093	375,257	343,132	281,637	259,017
Total shareholders' equity	35,687	31,216	26,420	24,443	20,030	18,706
<b>For the year (Ls'000)</b>						
Net profit before tax	7,305	9,952	4,388	7,027	2,628	6,311
Net profit after tax	6,238	8,317	3,448	5,511	2,000	6,338
Operating income	14,829	23,814	11,260	20,600	9,308	17,972

## Ratios

### Capital adequacy

Basle	11.06%	11.99%	12.99%	12.5%	11.37%	12.1%
Financial & Capital Markets Commission	11.56%	12.42%	13.15%	13.15%	13.47%	11.6%

During the first 6 months of 2004, total assets grew to Ls 536m from Ls 477m on 31 December 2003. This represents a growth of 12% for 6 months. Due to customers increased by 11% from Ls 435m on 31 December 2003 to Ls 482m on 30 June 2004. Current accounts and term deposits were Ls 427m and Ls 55m respectively (31 December 2003: Ls 347m and Ls 88 m respectively).

The Bank's group net profit before tax for the 6 months ended 30 June 2004 was Ls 7,3m (6 months ended 30 June 2003: Ls 4,3m) representing an increase of Ls 3 m. Total shareholders equity increased from Ls 31,2 million on 31 December 2003 to Ls 35,7 million on 30 June 2004.

During 2002, the Bank paid its first dividend in its history and this marked another significant milestone in the Bank's development. The Bank also paid dividends for the years ended 2002 and 2003. The proposed dividend for the year is calculated after the Bank's management forecasts that the Group can maintain a consolidated capital adequacy ratio of at least 10% while complying with all norms of the Financial and Capital Markets Commission regulations for the financial year following the dividend year. It is the intention of management that shareholders to achieve dividend growth, provided that the Bank complies with all regulatory norms.

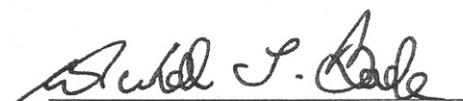
We are looking forward to the second half of 2004 and beyond and we firmly believe that we will continue to offer the best corporate service of any bank in the Baltic States. We owe our success to our customers and business partners and we would like to express our appreciation to our customers and business partners for the trust that they have placed in us.

5 August 2004



Leonid Esterkin

Chairman of the Council



Michael J. Bourke

Chairman of the Board of Directors

**A/S Rietumu banka**  
**Interim Condensed Consolidated and Bank Financial Statements**  
**for the six month period ended 30 June 2004**



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**AUDITORS' REPORT**

**To the shareholders of the joint stock company Rietumu Banka**

We have audited the accompanying unconsolidated interim condensed balance sheet of A/S Rietumu Banka ("the Parent") as of 30 June 2004 and the related unconsolidated interim condensed statements of income, changes in equity and cash flows (together "interim unconsolidated condensed financial statements") for the six month period then ended as set out on pages 6 to 13. We have also audited the accompanying consolidated interim condensed balance sheet of A/S Rietumu Banka and subsidiaries ("the Group") as of 30 June 2004 and the related consolidated interim condensed statements of income, changes in equity and cash flows (together "interim consolidated condensed financial statements") for the six month period then ended as set out on pages 6 to 13. These interim condensed financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated interim condensed financial statements of A/S Rietumu Banka and the consolidated interim condensed 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. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the interim unconsolidated parent company condensed financial statements give a true and fair view of the financial position of the Parent as of 30 June 2004, and of the results of its operations and its cash flows for the six month period then ended in accordance with International Accounting Standard 34 promulgated by the International Accounting Standards Board.

In our opinion, the interim consolidated condensed financial statements give a true and fair view of the financial position of the Group as of 30 June 2004 and of the results of its operations and its cash flows for the six month period then ended in accordance with International Accounting Standard 34 promulgated by the International Accounting Standards Board. The management report is consistent with the financial statements.

Patrick Querubin  
Partner  
SIA KPMG Latvia  
Licence No. 55  
Riga, Latvia  
5 August 2004

Inga Lipšane  
Sworn Auditor  
Certificate No. 112



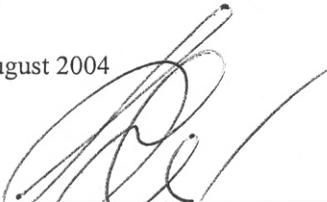
*A/S Rietumu banka  
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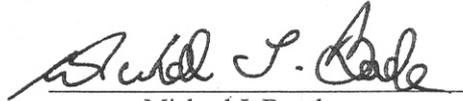
*Interim Statement of Income for the six month period ended 30 June 2004*

	Notes	Six months ended 30 June			
		2004		2003	
		Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
Interest income	3	7,461	6,764	5,135	4,639
Interest expense	4	(1,601)	(1,532)	(1,364)	(1,289)
<b>Net interest income</b>		<b>5,860</b>	<b>5,232</b>	<b>3,771</b>	<b>3,350</b>
Commission and fee income	5	6,062	4,931	5,200	4,279
Commission and fee expense	6	(1,113)	(855)	(1,092)	(944)
<b>Net commission and fee income</b>		<b>4,949</b>	<b>4,076</b>	<b>4,108</b>	<b>3,335</b>
Dividends received		6	6	4	4
Profit on securities trading and foreign exchange, net		3,757	2,728	3,323	2,537
Other operating income		257	220	54	44
<b>Operating income</b>		<b>14,829</b>	<b>12,262</b>	<b>11,260</b>	<b>9,270</b>
Administrative expense		(5 433)	(5,214)	(5,118)	(4,795)
Amortisation and depreciation charge		(986)	(978)	(1,011)	(933)
Other operating expense		(895)	(15)	(580)	(6)
Provision expense for credit losses	7	(377)	(377)	(385)	(385)
Release of previously established provision	7	167	167	222	222
Income from subsidiaries		-	1,392	-	986
<b>Profit before income tax and minority interest</b>		<b>7,305</b>	<b>7,237</b>	<b>4,388</b>	<b>4,359</b>
Corporate income tax		(1,067)	(999)	(960)	(911)
<b>Net profit before minority interest</b>		<b>6,238</b>	<b>6,238</b>	<b>3,428</b>	<b>3,448</b>
Minority interest		-	-	20	-
<b>Net profit for the period</b>		<b>6,238</b>	<b>6,238</b>	<b>3,448</b>	<b>3,448</b>
Basic earnings per share		<b>0.30</b>	<b>0.30</b>	<b>0.17</b>	<b>0.17</b>

The interim condensed consolidated and bank financial statements on pages 6 to 13 have been approved by the management of the Bank on 6 August 2004 and signed on its behalf by:

5 August 2004

  
Leonid Esterkin  
Chairman of the Council

  
Michael J. Bourke  
Chairman of the Board of Directors

*The accompanying notes on pages 10 to 13 are an integral part of these interim condensed financial statements.*

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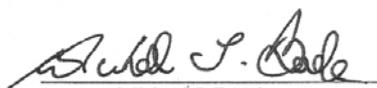
*Interim Balance Sheet and Memorandum Items as at 30 June 2004*

	Notes	30/06/04		31/12/03	
		Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
<b>Assets</b>					
Cash and deposits with the Bank of Latvia		19,739	19,738	19,705	19,705
Balances due from credit institutions		197,327	197,318	213,667	213,662
Loans and advances to non-banking customers	8	180,676	151,214	160,992	134,387
Government bonds and other fixed income securities		121,637	121,637	66,251	66,251
<i>Trading portfolio</i>	9	-	-	4,445	4,445
<i>Investment securities – available-for-sale</i>	10	8,622	8,622	8,783	8,783
- <i>held-to-maturity</i>	10	113,015	113,015	53,023	53,023
Shares and other non-fixed income securities		864	501	721	704
<i>Trading portfolio</i>	9	369	367	563	561
<i>Investment securities – available-for-sale</i>	10	495	134	158	143
Investments in subsidiaries		-	7,730	-	4,994
Goodwill		775	775	945	945
Intangible assets		3,075	3,075	2,931	2,931
Property and equipment		9,378	9,269	9,319	9,238
Other assets		1,068	615	517	516
Prepayments and accrued income		1,271	1,270	1,976	1,850
<b>Total assets</b>		<b>535,810</b>	<b>513,142</b>	<b>477,024</b>	<b>455,183</b>
<b>Liabilities</b>					
Balances due to credit institutions		14,723	14,723	7,491	7,491
Due to customers		481,783	459,680	435,093	413,620
Derivative financial instruments		140	140	212	212
Deferred income and accrued expense		3,164	2,873	2,333	2,271
<i>Current taxes</i>		378	298	162	147
<i>Deferred tax liabilities</i>		533	533	534	534
<i>Other deferred income and accrued expenses</i>		2,253	2,042	1,637	1,590
Other liabilities		313	39	679	373
<b>Total liabilities</b>		<b>500,123</b>	<b>477,455</b>	<b>445,808</b>	<b>423,967</b>
<b>Shareholders' equity</b>					
Paid-in share capital		20,551	20,551	20,551	20,551
Legal and other reserves		16	16	16	16
Share premium		25	25	25	25
Less: treasury shares		(2)	(2)	(3)	(3)
Revaluation reserve – <i>property</i>		652	652	652	652
Revaluation reserve – <i>available-for-sale investments</i>		(52)	(52)	(236)	(236)
Retained earnings		14,497	14,497	10,211	10,211
<b>Total shareholders' equity</b>		<b>35,687</b>	<b>35,687</b>	<b>31,216</b>	<b>31,216</b>
<b>Total liabilities and shareholders' equity</b>		<b>535,810</b>	<b>513,142</b>	<b>477,024</b>	<b>455,183</b>
<b>Memorandum items</b>					
Contingent liabilities		7,220	7,220	7,122	7,122
Letters of credit		3,276	3,276	1,644	1,644
Financial commitments		14,210	14,210	10,210	10,210

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5 August 2004

  
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 Chairman of the Council

  
 Michael J. Bourke  
 Chairman of the Board of Directors

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*Interim Statement of Changes in Shareholders' Equity for the six month period ended 30 June 2004*

	Paid-in share capital Ls '000	Share premium Ls'000	Legal and other reserves Ls '000	Revaluation reserve – property, net of taxes Ls '000	Revaluation reserve - available – for-sale investments, net of taxes Ls '000	Retained earnings Ls '000	Total shareholders' equity Ls '000
<b>Balance at 31 December 2002</b>	<b>20,343</b>	-	<b>16</b>	<b>668</b>	<b>67</b>	<b>3,349</b>	<b>24,443</b>
Dividends paid on ordinary shares	-	-	-	-	-	(1,471)	(1,471)
Share issue	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	3,448	3,448
<b>Balance at 30 June 2003</b>	<b>20,343</b>	-	<b>16</b>	<b>668</b>	<b>67</b>	<b>5,326</b>	<b>26,420</b>
Transfers	-	-	-	(16)	-	16	-
Revaluation of available-for-sale investments	-	-	-	-	(303)	-	(303)
Net profit for the period	-	-	-	-	-	4,869	4,869
Share issue	205	25	-	-	-	-	230
<b>Balance at 31 December 2003</b>	<b>20,548</b>	<b>25</b>	<b>16</b>	<b>652</b>	<b>(236)</b>	<b>10,211</b>	<b>31,216</b>
Dividends paid on ordinary shares	-	-	-	-	-	(1,952)	(1,952)
Treasury shares sold	1	-	-	-	-	-	1
Revaluation of available-for-sale investments	-	-	-	-	184	-	184
Net profit for the period	-	-	-	-	-	6,238	6,238
<b>Balance at 30 June 2004</b>	<b>20,549</b>	<b>25</b>	<b>16</b>	<b>652</b>	<b>(52)</b>	<b>14,497</b>	<b>35,687</b>

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*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
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*Interim Statement of Cash Flow for the six month period ended 30 June 2004*

	Six months ended 30 June			
	2004		2003	
	Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
<b>Cash inflow/ (outflow) from operating activities</b>				
Profit before income tax	7,305	7,237	4,388	4,359
Amortisation and depreciation of intangible assets and property and equipment and their write-offs	769	761	795	717
Goodwill amortisation	217	217	208	208
Increase in provisions for credit losses	210	210	239	239
(Gain)/loss from revaluation of investments in subsidiaries	-	(1,392)	-	(864)
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>	<b>8,501</b>	<b>7,033</b>	<b>5,630</b>	<b>4,659</b>
(Increase)/decrease in prepayments and accrued income	705	580	(413)	(436)
(Increase)/decrease in other assets	(551)	(99)	(359)	(17)
(Increase) in derivative financial instruments	(72)	(72)	(491)	(491)
(Decrease)/increase in deferred income and accrued expense	616	452	1,111	1,061
Increase /(decrease) in other liabilities	(366)	(334)	3,012	3,066
(Increase)/decrease in investments in fixed income securities	4,790	4,790	(12,545)	(12,544)
Decrease/(increase) in balances due from credit institutions	12,352	12,352	11,998	11,998
(Increase) in loans and advances to customers	(19,894)	(17,037)	(12,983)	(16,251)
Increase/(decrease) in balances due to credit institutions	6,552	6,552	4,701	4,701
Increase in deposits from the public	46,690	46,060	32,125	35,881
<b>Increase / (decrease) in cash equivalents from operating activities before corporate income tax</b>	<b>59,323</b>	<b>60,277</b>	<b>31,786</b>	<b>31,627</b>
Corporate income tax paid	(852)	(849)	(1,635)	(1,585)
<b>Net cash and cash equivalents from operating activities</b>	<b>58,471</b>	<b>59,428</b>	<b>30,151</b>	<b>30,042</b>
<b>Cash inflow/ (outflow) from investing activities</b>				
Purchase of property, equipment and intangible assets	(1,019)	(983)	(1,285)	(1,284)
Acquisition of subsidiaries	-	(1,344)	-	-
Purchase of shares and HTM securities	(60,135)	(59,789)	-	-
<b>(Decrease) in cash and cash equivalents from investing activities</b>	<b>(61,154)</b>	<b>(62,116)</b>	<b>(1,285)</b>	<b>(1,284)</b>
<b>Cash inflow/ (outflow) from financing activities</b>				
Treasury shares sold	1	1	-	-
Dividends paid	(1,952)	(1,952)	(1,471)	(1,471)
<b>(Decrease) in cash and cash equivalents from financing activities</b>	<b>(1,951)</b>	<b>(1,951)</b>	<b>(1,471)</b>	<b>(1,471)</b>
<b>Net cash inflow/ (outflow) for the period</b>	<b>(4,634)</b>	<b>(4,639)</b>	<b>27,395</b>	<b>27,287</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>205,828</b>	<b>205,823</b>	<b>185,631</b>	<b>185,559</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>201,194</b>	<b>201,184</b>	<b>213,026</b>	<b>212,846</b>

*The accompanying notes on pages 9 to 12 are an integral part of these interim condensed financial statements.*

*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2004*

**Notes**

**Note 1 Incorporation and principal activities**

The Parent of the Group – A/S Rietumu Banka was established in 13 May 1992 and incorporated in the Republic of Latvia as a joint stock company, in which the shareholders have limited liability. The Group's main areas of operation include granting loans, transferring payments, exchanging foreign currencies and securities brokerage.

**Note 2 Accounting policies**

These consolidated and Bank interim condensed financial statements of A/S Rietumu Banka ("the Bank") and subsidiaries ("the Group") are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated and Bank financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

These interim condensed financial statements should be read in conjunction with the 2003 annual financial statements.

**Note 3 Interest income**

Interest income is comprised of the following:

	<b>Six months ended 30 June 2004</b>		<b>Six months ended 30 June 2003</b>	
	<b>Group Ls'000</b>	<b>Bank Ls'000</b>	<b>Group Ls'000</b>	<b>Bank Ls'000</b>
On balances due from credit institutions	1,398	1,398	1,404	1,404
On loans granted to customers	4,721	4,024	2,755	2,262
On debt securities	1,342	1,342	976	973
<b>Total</b>	<b><u>7,461</u></b>	<b><u>6,764</u></b>	<b><u>5,135</u></b>	<b><u>4,639</u></b>

**Note 4 Interest expense**

Interest expense is comprised of the following:

	<b>Six months ended 30 June 2004</b>		<b>Six months ended 30 June 2003</b>	
	<b>Group Ls'000</b>	<b>Bank Ls'000</b>	<b>Group Ls'000</b>	<b>Bank Ls'000</b>
On deposits from the public	996	927	927	852
On balances due to credit institutions	160	160	113	113
Other	445	445	324	324
<b>Total</b>	<b><u>1,601</u></b>	<b><u>1,532</u></b>	<b><u>1,364</u></b>	<b><u>1,289</u></b>

**Note 5 Commission and fee income**

Commission and fee income is comprised of the following:

	<b>Six months ended 30 June 2004</b>		<b>Six months ended 30 June 2003</b>	
	<b>Group Ls'000</b>	<b>Bank Ls'000</b>	<b>Group Ls'000</b>	<b>Bank Ls'000</b>
Money transfers	2,899	2,899	2,565	2,565
Cash withdrawals	196	196	228	228
Commission income from payment cards	934	934	683	683
Revenue from customer asset management and brokerage commissions	1,176	65	794	10
Account opening	100	100	106	106
Commission income from loans	304	304	243	243
Other	453	433	581	444
<b>Total</b>	<b><u>6,062</u></b>	<b><u>4,931</u></b>	<b><u>5,200</u></b>	<b><u>4,279</u></b>

*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2004*

**Note 6 Commission and fee expense**

Commission and fee expense is comprised of the following:

	<b>Six months ended 30 June 2004</b>		<b>Six months ended 30 June 2003</b>	
	<b>Group Ls'000</b>	<b>Bank Ls'000</b>	<b>Group Ls'000</b>	<b>Bank Ls'000</b>
Banks	513	513	658	658
Brokerage commission	267	16	159	11
Cash withdrawals	10	10	5	5
Credit card expenses	312	312	270	270
Other commission	11	4	-	-
<b>Total</b>	<b><u>1,113</u></b>	<b><u>855</u></b>	<b><u>1,092</u></b>	<b><u>944</u></b>

**Note 7 Provision expense for credit losses**

	<b>Loans and advances Ls '000</b>	<b>Other assets Ls '000</b>	<b>Total Ls '000</b>
<b>Provisions as of 31 December 2003</b>	<b><u>1,081</u></b>	<b><u>1</u></b>	<b><u>1,082</u></b>
Provision expense	377	-	377
Release of previously established provision	(167)	-	(167)
Net of provisions charged to the income statement	<u>210</u>	<u>-</u>	<u>210</u>
Total decrease of provision due to write-offs	(71)	(1)	(72)
Foreign exchange difference	13	-	13
<b>Provisions as of 30 June 2004</b>	<b><u>1,233</u></b>	<b><u>-</u></b>	<b><u>1,233</u></b>

**Note 8 Loans and advances to non-banking customers**

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

	<b>30/06/04</b>	<b>30/06/04</b>	<b>31/12/03</b>	<b>31/12/03</b>
	<b>Group Ls'000</b>	<b>Bank Ls'000</b>	<b>Group Ls'000</b>	<b>Bank Ls'000</b>
Private companies	149,169	120,339	139,242	112,780
Loans to private individuals	32,740	32,108	22,831	22,688
<b>Total gross loans and advances to non-banking customers</b>	<b><u>181,909</u></b>	<b><u>152,447</u></b>	<b><u>162,073</u></b>	<b><u>135,468</u></b>
Provisions for credit losses	(1,233)	(1,233)	(1,081)	(1,081)
<b>Loans and advances to non-banking customers, net</b>	<b><u>180,676</u></b>	<b><u>151,214</u></b>	<b><u>160,992</u></b>	<b><u>134,387</u></b>

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**Note 9 Trading portfolio**

	<b>30/06/04</b>	<b>30/06/04</b>	<b>31/12/03</b>	<b>31/12/03</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
Russian government bonds	-	-	1,051	1,051
German government bonds	-	-	3,394	3,394
Shares listed on the New York stock exchange	2	-	2	-
Shares listed on the Moscow stock exchange	169	169	302	302
Shares listed on the Riga stock exchange	198	198	259	259
<b>Total</b>	<b><u>369</u></b>	<b><u>367</u></b>	<b><u>5,008</u></b>	<b><u>5,006</u></b>

**Note 10 Investment securities**

Securities available-for-sale:

	<b>30/06/04</b>	<b>30/06/04</b>	<b>31/12/03</b>	<b>31/12/03</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
United States government bonds	8,078	8,078	8,242	8,242
US corporate bonds	544	544	541	541
Unlisted equity securities	495	134	158	143
<b>Total securities available-for-sale</b>	<b><u>9,117</u></b>	<b><u>8,756</u></b>	<b><u>8,941</u></b>	<b><u>8,926</u></b>

Securities held -to-maturity:

	<b>30/06/04</b>	<b>30/06/04</b>	<b>31/12/03</b>	<b>31/12/03</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
Argentina government bonds	489	489	487	487
US government bonds	54,329	54,329	-	-
US corporate bonds	7,907	7,907	10,573	10,573
Great Britain corporate bonds	12,546	12,546	9,764	9,764
Portugal corporate bonds	-	-	2,699	2,699
Norwegian corporate bonds	2,739	2,739	2,724	2,724
Austrian corporate bonds	1,183	1,183	1,186	1,186
German corporate bonds	5,563	5,563	5,560	5,560
Luxemburg corporate bonds	8,154	8,154	5,419	5,419
Australian corporate bonds	3,822	3,822	3,800	3,800
Swiss corporate bonds	-	-	2,722	2,722
Japan corporate bonds	2,677	2,677	2,657	2,657
Sweden corporate bonds	2,741	2,741	2,725	2,725
France corporate bonds	8,143	8,143	-	-
Holland corporate bonds	2,722	2,722	2,707	2,707
<b>Total securities held-to-maturity</b>	<b><u>113,015</u></b>	<b><u>113,015</u></b>	<b><u>53,023</u></b>	<b><u>53,023</u></b>
<b>Total investment securities</b>	<b><u>122,132</u></b>	<b><u>121,771</u></b>	<b><u>61,964</u></b>	<b><u>61,949</u></b>

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**Note 11 Investments in subsidiaries**

<u>Name</u>	<u>Business</u>	<u>Share %</u>		<u>Country of incorporation</u>
		30/06/04	31/12/03	
"RB Securities" Ltd.	Financial services	99.99	99.99	Cyprus
"DAM Property Investments" Ltd.	Construction and renovation	100	-	Latvia
"RB Investments" Ltd.	Investment projects	100	-	Latvia
"Centrus" Ltd.	Construction and renovation	100	-	Latvia
"RB Vidzeme" Ltd.	Real estate	100	-	Latvia

**Note 12 Related party transactions**

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

Loans and advances issued to related parties were as follows:

	<b>30 June 2004</b>
	<b>Ls'000</b>
<b>Loans</b>	
Loans at the beginning of period	1,997
Loans to management and directors repaid during period (net)	(480)
Loans to management as at end of period	<u><u>1,517</u></u>
<b>Deposits</b>	
Deposits at the beginning of period	1,822
Deposits received during the period	5,475
Deposits at the end of period	<u><u>7,297</u></u>
Guarantees and credit lines issued by the Bank for management and Directors	<u><u>233</u></u>

**Note 13 Memorandum items**

**Legal Proceedings** As at 30 June 2004 there were 7 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 1,014 thousand. Provisions are made for claims where management on the basis of professional advice to the Bank, considers that it is likely that a loss may eventuate (2003: 13 outstanding legal proceedings against the Bank). As of 30 June 2004, the amount of claims provision was nil. (2003: nil).

**Note 14 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 exposure of the Bank.

The Bank's risk based capital adequacy ratio, as at 30 June 2004 was 11.06% (13.76% if net profit for the 6 months period is included in the regulatory capital), which is above the minimum ratio recommended by the 1998 Basle Committee guidelines of 8%. In accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 11.56% (14.40%). The Finance and Capital Market Commission requires Latvian banks to maintain a capital adequacy ratio of 10% of risk-weighted assets.