

A/S RIETUMU BANKA
Interim Condensed
Consolidated and Bank
Financial Statements
for the six month period
ended 30 June 2003

A/S Rietumu banka
Interim Condensed Consolidated and Bank Financial Statements
for the six month period ended 30 June 2003

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Management Commentary

Operating and financial review

The first 6 months of the year 2003 were very successful and promising from an operational and strategic viewpoint. The Bank's financial performance is 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

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. The program of crediting small to medium sized enterprises that was launched during the second half of 2002 is continuing to be very successful. This program was backed by a EUR 5 million credit facility received from the European Bank for Reconstruction and Development for development of the SME sector in Latvia. The Bank had active mortgage advertizing campaigns during the first 6 months of the year. The mortgage program will continue during 2003 and the Bank is planning various mortgage related programs during 2003. With the developments within the credit area during 2002, the Bank has positioned itself to offer a very competitive lending service to its customers, while maintaining the overall objective of conservative growth.

Improving compliance with local and international money laundering regulations as well as improving the Bank's know your customer database has been a key area of focus of senior management for the past two and a half years. The Bank reached all its targets set for the first 6 months of 2003 in the area of money laundering and significant improvements have been made compliance reporting as well as monitoring of transactions. The Bank's policies have been restated, organizational changes have been made and new rules and procedures have been implemented. Staff training programs have been held throughout the Bank to improve awareness of suspicious transactions. The Bank has a compliance action plan implemented for 2003 that we are confident we will meet.

In November 2001, the Bank purchased Equation banking software from Misys PLC. Equation will replace the existing internally developed system. All departments of the Bank have been involved in the implementation process. Significant efforts have been made in the implementation of Equation, including the start of user acceptance testing. To implement Equation is a priority for 2003 and the Bank plans to start working in a live environment in January 2004.

Financial results

	30 June 2003 (6 months)	31 December 2002	30 June 2002 (6 months)	31 December 2002	31 December 2001	31 December 2000
At year end (Ls'000)						
Total assets	420,478	377,912	337,066	377,912	313,676	153,101
Loans and advances to customers	104,780	92,033	103,562	92,033	75,742	35,255
Due to customers	375,257	343,132	281,637	343,132	259,017	137,097
Total shareholders' equity	26,420	24,443	20,030	24,443	18,706	10,723
For the year (Ls'000)						
Net profit before tax	4,388	7,027	2,628	7,068	6,311	4,473
Net profit after tax	3,448	5,511	2,000	5,511	6,338	4,448
Operating income	11,260	20,600	9,308	20,600	17,972	8,746

Ratios

Capital adequacy

Basle	12.99%	12.5%	11.37%	12.5%	12.1%	19.3%
Financial & Capital Markets Commission	13.15%	13.15%	11.47%	13.15%	11.6%	16.2%

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During 2003, total assets grew Ls 420m from Ls 378m on 31 December 2002. This represents a growth of 11%. Due to customers increased by 9% from Ls 343m on 31 December 2002 to Ls 375m on 30 June 2003. Current accounts and term deposits were Ls 347m and Ls 28m respectively (31 December 2002: Ls 303m and Ls 40m respectively).

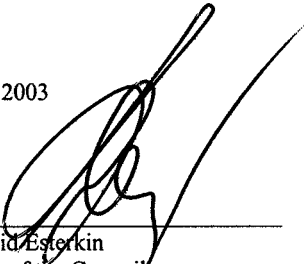
The Bank's group net profit before tax for the 6 months ended 30 June 2003 was Ls 4,4m (6 months ended 30 June 2002: Ls 2,6m) representing an increase of Ls 1,8m. Total shareholders equity increased from Ls 24,4 million on 31 December 2002 to Ls 26,4 million on 30 June 2003.

During 2002, the Bank paid its first dividend in its history and this marked another significant milestone in the Bank's development. A dividend of Ls 1,010,000 was paid in April 2002. A dividend of Ls 1,471,000 was paid in April 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.

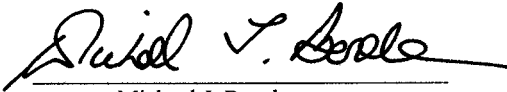
We are looking forward to the second half of 2003 and beyond and we firmly believe that we will continue to offer the best corporate service of any bank in the Baltic States. We owe our success to our customers and business partners and we would like to express our appreciation to our customers and business partners for the trust that they have placed in us.

8 August 2003

8 August 2003



Leonid Esterkin
Chairman of the Council



Michael J. Bourke
Chairman of the Board of Directors

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AUDITORS' REPORT

To the shareholders of the joint stock company Rietumu Banka

We have audited the accompanying interim balance sheet of the joint stock company Rietumu Banka ("The Bank") and its subsidiaries (referred to as "the Group") as of 30 June 2003 and the related interim Bank and consolidated statements of profit and loss, shareholder's equity and cash flows for the six month period then ended. The interim condensed Bank and consolidated financial statements as set out on pages 6 to 13, are the responsibility of the Group's management. Our responsibility is to issue an opinion on these financial statements based on our audit.

The interim condensed Bank and consolidated financial statements for the six month period ended 30 June 2002 were audited by another independent audit firm, who issued an unqualified auditor's report dated 12 August 2002 on those statements. The Bank and consolidated financial statements for the year ended 31 December 2002 were audited by the same independent audit firm whose report dated 14 March 2003 expressed an unqualified opinion on those 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the interim condensed Bank and consolidated financial statements present a true and fair view of the financial position of the Bank and the Group as at 30 June 2003, and the results of their operations and their cash flows for the six month period then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting", promulgated by the International Accounting Standards Board.

SIA KPMG Latvia
Licence No. 55

Patrick Querubin
Partner

Inga Lipšāne
Sworn Auditor
personal code 260560-10319
Certificate No. 112

Rīga, Latvia
8 August 2003



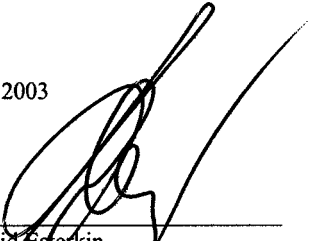
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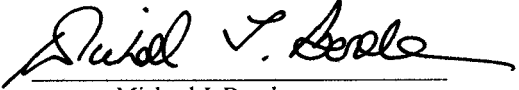
Interim Statement of Income for the six month period ended 30 June 2003

	Notes	Six months ended 30 June			
		2003		2002	
		Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
Interest income	3	5,135	4,639	5,092	4,772
Interest expense	4	(1,364)	(1,289)	(1,498)	(1,406)
Net interest income		3,771	3,350	3,594	3,366
Commission and fee income	5	5,200	4,279	5,106	4,265
Commission and fee expense	6	(1,092)	(944)	(1,052)	(643)
Net commission and fee income		4,108	3,335	4,054	3,622
Dividends received		4	4	16	16
Profit on securities trading and foreign exchange, net		3,323	2,537	1,816	1,009
Provision for impairment of investment securities		-	-	(567)	(567)
Other operating income		54	44	395	22
Operating income		11,260	9,270	9,308	7,468
Administrative expense		(5,118)	(4,795)	(4,673)	(4,220)
Amortisation and depreciation charge		(1,011)	(933)	(985)	(918)
Other operating expense		(580)	(6)	(610)	(9)
Provision expense for credit losses	7	(385)	(385)	(760)	(760)
Release of previously established provision	7	222	222	348	348
Income from subsidiaries		-	986	-	694
Profit before income tax and minority interest		4,388	4,359	2,628	2,603
Corporate income tax		(960)	(911)	(628)	(596)
Net profit before minority interest		3,428	3,448	2,000	2,007
Minority interest		20	-	7	-
Net profit for the period		3,448	3,448	2,007	2,007
Basic earnings per share		0.17	0.17	0.10	0.10
Diluted earnings per share		0.17	0.17	0.10	0.10

The interim condensed consolidated and bank financial statements on pages 6 to 13 have been approved by the management of the Bank on 8 August 2003 and signed on its behalf by:

8 August 2003


 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 2003

	Notes	30/06/03		31/12/02	
		Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
Assets					
Cash and deposits with the Bank of Latvia		16,186	16,186	16,223	16,223
Balances due from credit institutions		214,241	214,061	198,204	198,132
Loans and advances to non-banking customers	8	104,780	88,830	92,033	72,818
Government bonds and other fixed income securities		69,231	69,167	56,705	56,644
<i>Trading portfolio</i>	9	5,067	5,003	1,496	1,435
<i>Investment securities – available-for-sale</i>	10	9,925	9,925	9,976	9,976
- <i>held-to-maturity</i>		54,239	54,239	45,233	45,233
Shares and other non-fixed income securities		799	776	780	755
<i>Trading portfolio</i>	9	646	644	694	691
<i>Investment securities – available-for-sale</i>	10	153	132	86	64
Investments in subsidiaries	11	-	4,101	-	3,237
Derivative financial instruments		223	223	-	-
Goodwill		1,141	1,141	1,349	1,349
Intangible assets		2,460	2,460	1,871	1,871
Property and equipment		9,317	9,225	9,419	9,247
Other assets		1,074	553	715	536
Prepayments and accrued income		1,026	887	613	451
Total assets		420,478	407,610	377,912	361,263
Liabilities					
Balances due to credit institutions		12,051	12,051	6,747	6,747
Due to customers		375,257	362,552	343,132	326,671
Derivative financial instruments		-	-	268	268
Deferred income and accrued expense		2,994	2,887	2,558	2,500
<i>Current taxes</i>		230	230	1,165	1,164
<i>Deferred tax liabilities</i>		712	712	452	452
<i>Other deferred income and accrued expenses</i>		2,052	1,945	941	884
Other liabilities		3,711	3,700	699	634
Total liabilities		394,013	381,190	353,404	336,820
Minority interest		45	-	65	-
Shareholders' equity					
Paid-in share capital		20,346	20,346	20,346	20,346
Legal and other reserves		16	16	16	16
Less: treasury shares		(3)	(3)	(3)	(3)
Revaluation reserve – <i>property</i>		668	668	668	668
Revaluation reserve – <i>available-for-sale investments</i>		67	67	67	67
Retained earnings/loss		5,326	5,326	3,349	3,349
Total shareholders' equity		26,420	26,420	24,443	24,443
Total liabilities and shareholders' equity		420,478	407,610	377,912	361,263
Memorandum items					
Contingent liabilities		9,726	9,726	2,699	2,699
Financial commitments		11,775	11,775	4,870	4,870

The interim condensed consolidated and bank financial statements on pages 6 to 13 have been approved by the management of the Bank on 8 August 2003 and signed on its behalf by:

8 August 2003

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 Statement of Changes in Shareholders' Equity for the six month period ended 30 June 2003

	Paid-in share capital 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
Balance at 31 December 2001	20,206	16	683	(1,032)	(1,167)	18,706
Dividends paid on ordinary shares	-	-	-	-	(1,010)	(1,010)
Revaluation of available- for-sale investments	-	-	-	327	-	327
Net profit for the period	-	-	-	-	2,007	2,007
Balance at 30 June 2002	20,206	16	683	(705)	(170)	20,030
Transfers	-	-	(15)	-	15	-
Revaluation of available- for-sale investments	-	-	-	772	-	772
Net profit for the period	-	-	-	-	3,504	3,504
Share issue	137	-	-	-	-	137
Balance at 31 December 2002	20,343	16	668	67	3,349	24,443
Dividends paid on ordinary shares	-	-	-	-	(1,471)	(1,471)
Net profit for the period	-	-	-	-	3,448	3,448
Balance at 30 June 2003	20,343	16	668	67	5,326	26,420

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Interim Statement of Cash Flow for the six month period ended 30 June 2003

	Six months ended 30 June			
	2003		2002	
	Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
Cash inflow/ (outflow) from operating activities				
Profit before income tax	4,388	4,359	2,628	2,603
Amortisation and depreciation of intangible assets and property and equipment and their write-offs	795	717	769	701
Goodwill amortisation	208	208	216	216
Increase in provisions for credit losses	239	239	6	6
(Gain)/loss from revaluation of investments in subsidiaries	-	(864)	472	(127)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	5,630	4,659	4,091	3,399
(Increase)/decrease in prepayments and accrued income	(413)	(436)	(580)	(559)
(Increase)/decrease in other assets	(359)	(17)	4,815	1,334
(Increase) in derivative financial instruments	(491)	(491)	-	-
(Decrease)/increase in deferred income and accrued expense	1,111	1,061	1,294	1,393
Increase/(decrease) in other liabilities	3,012	3,066	(177)	(188)
(Increase)/decrease in investments in fixed income securities and shares	(12,545)	(12,544)	2,241	2,122
Decrease/(increase) in balances due from credit institutions	11,998	11,998	(43,049)	(43,049)
(Increase) in loans and advances to customers	(12,983)	(16,251)	(27,826)	(18,012)
Increase/(decrease) in balances due to credit institutions	4,701	4,701	(2,050)	(2,050)
Increase in deposits from the public	32,125	35,881	22,620	17,097
Increase / (decrease) in cash equivalents from operating activities before corporate income tax	31,786	31,627	(38,621)	(38,513)
Corporate income tax paid	(1,635)	(1,585)	-	-
Net cash and cash equivalents from operating activities	30,151	30,042	(38,621)	(38,513)
Cash inflow/ (outflow) from investing activities				
Purchase of property, equipment and intangible assets	(1,285)	(1,284)	(1,873)	(1,842)
Sale of property and equipment	-	-	2	2
(Decrease) in cash and cash equivalents from investing activities	(1,285)	(1,284)	(1,871)	(1,840)
Cash inflow/ (outflow) from financing activities				
Dividends paid	(1,471)	(1,471)	(1,010)	(1,010)
(Decrease) in cash and cash equivalents from financing activities	(1,471)	(1,471)	(1,010)	(1,010)
Net cash inflow/ (outflow) for the period	27,395	27,287	(41,502)	(41,363)
Cash and cash equivalents at the beginning of the period	185,631	185,559	160,086	159,805
Cash and cash equivalents at the end of the period	213,026	212,846	118,584	118,442

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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 2002.

These interim condensed financial statements should be read in conjunction with the 2002 annual financial statements.

Note 3 Interest income

Interest income is comprised of the following:

	Six months ended 30 June 2003		Six months ended 30 June 2002	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
On balances due from credit institutions	1,404	1,404	1,220	1,220
On loans granted to customers	2,755	2,262	3,107	2,811
On debt securities	976	973	747	738
Other	-	-	18	3
Total	5,135	4,639	5,092	4,772

Note 4 Interest expense

Interest expense is comprised of the following:

	Six months ended 30 June 2003		Six months ended 30 June 2002	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
On deposits from the public	927	852	963	871
On balances due to credit institutions	113	113	472	472
Other	324	324	63	63
Total	1,364	1,289	1,498	1,406

Note 5 Commission and fee income

Commission and fee income is comprised of the following:

	Six months ended 30 June 2003		Six months ended 30 June 2002	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Money transfers	2,565	2,565	2,618	2,618
Cash withdrawals	228	228	209	209
Commission income from payment cards	683	683	782	782
Revenue from customer asset management and brokerage commissions	794	10	706	10
Account opening	106	106	117	117
Commission income from loans	243	243	215	215
Other	581	444	459	314
Total	5,200	4,279	5,106	4,265

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Note 6 Commission and fee expense

Commission and fee expense is comprised of the following:

	Six months ended 30 June 2003		Six months ended 30 June 2002	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Banks	658	658	417	417
Brokerage commission	159	11	382	7
Cash withdrawals	5	5	14	14
Credit card expenses	270	270	203	203
Other commission	-	-	36	2
Total	<u>1,092</u>	<u>944</u>	<u>1,052</u>	<u>643</u>

Note 7 Provision expense for credit losses

	Loans and advances Ls '000	Other assets Ls '000	Other provisions Ls'000	Total Ls '000
Provisions as of 31 December 2002	<u>1,250</u>	<u>6</u>	<u>90</u>	<u>1,346</u>
Provision expense	385	-	-	385
Release of previously established provision	(132)	-	(90)	(222)
Net of provisions charged to the income statement	<u>253</u>	<u>-</u>	<u>(90)</u>	<u>163</u>
Total decrease of provision due to write-offs	-	(1)	-	(1)
Foreign exchange difference	(14)	-	-	(14)
Provisions as of 30 June 2003	<u>1,489</u>	<u>5</u>	<u>-</u>	<u>1,494</u>

Note 8 Loans and advances to non-banking customers

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

	30/06/03	30/06/03	31/12/02	31/12/02
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Private companies	92,076	76,126	82,248	63,523
Loans to private individuals	14,193	14,193	11,035	10,545
Total gross loans and advances to non-banking customers	<u>106,269</u>	<u>90,319</u>	<u>93,283</u>	<u>74,068</u>
Provisions for credit losses	(1,489)	(1,489)	(1,250)	(1,250)
Loans and advances to non-banking customers, net	<u>104,780</u>	<u>88,830</u>	<u>92,033</u>	<u>72,818</u>

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Note 9 Trading portfolio

	30/06/03	30/06/03	31/12/02	31/12/02
	Group	Bank	Group	Bank
	Ls'000	Ls'000	Ls'000	Ls'000
Russian government bonds	1,679	1,679	1,435	1,435
France government bonds	3,324	3,324	-	-
US corporate bonds	64	-	61	-
Shares listed on the New York stock exchange	2	-	3	-
Shares listed on the Moscow stock exchange	431	431	570	570
Shares listed on the Riga stock exchange	213	213	121	121
Total	5,713	5,647	2,190	2,126

Note 10 Investment securities

Securities available-for-sale:

	30/06/03	30/06/03	31/12/02	31/12/02
	Group	Bank	Group	Bank
	Ls'000	Ls'000	Ls'000	Ls'000
United States government bonds	9,356	9,356	9,380	9,380
Corporate bonds	569	569	596	596
Unlisted equity securities	153	132	86	64
Total securities available-for-sale	10,078	10,057	10,062	10,040

Unlisted equity securities available-for-sale consist of Ls 153 thousand of SWIFT shares and shares of the Riga Stock Exchange.

Securities held -to-maturity:

	30/06/03	30/06/03	31/12/02	31/12/02
	Group	Bank	Group	Bank
	Ls'000	Ls'000	Ls'000	Ls'000
Argentina government bonds	597	597	623	623
Russian government bonds	78	78	-	-
US corporate bonds	16,816	16,816	25,379	25,379
Canadian corporate bonds	1,149	1,149	1,209	1,209
Great Britain corporate bonds	9,096	9,096	4,761	4,761
Austrian corporate bonds	1,257	1,257	1,192	1,192
German corporate bonds	5,876	5,876	4,867	4,867
Luxemburg corporate bonds	5,699	5,699	5,961	5,961
Australian corporate bonds	4,000	4,000	1,241	1,241
Swiss corporate bonds	1,176	1,176	-	-
Japan corporate bonds	2,790	2,790	-	-
Sweden corporate bonds	2,867	2,867	-	-
France corporate bonds	2,838	2,838	-	-
Total securities held-to-maturity	54,239	54,239	45,233	45,233
Total investment securities	64,317	64,296	55,295	55,273

Note 11 Investments in subsidiaries

<u>Name</u>	<u>Business</u>	<u>Share %</u>		<u>Country of incorporation</u>
		<u>30/06/03</u>	<u>31/12/02</u>	
“RB Securities” Ltd	Financial services	99.99	99.99	Cyprus
JSC “Baltijas Karšu Centrs”	Processing of payment cards	75	75	Latvia
JSC “Baltijos Vertybiniai popieriai”	Brokerage services	99	99	Lithuania

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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:

	30 June 2003
	Ls'000
Loans:	
Loans at the beginning of period	1,074
Loans to management and directors issued during period (net)	278
Loans to management as at end of period	<u><u>1,352</u></u>
Deposits	
Deposits at the beginning of period	53
Deposits received during the period	1,411
Deposits at the end of period	<u><u>1,464</u></u>
Guarantees and credit lines issued by the Bank for management and Directors	120

Note 13 Memorandum items

Legal Proceedings As of 30 June 2003 there were 13 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 2,089 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 (2002: 9 outstanding legal proceedings against the Bank). As of 30 June 2003, the amount of claims provision was nil. (2002:0).

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 2003 was 12.99% (11.37% - 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 13.15% (11.47%). The Finance and Capital Market Commission requires Latvian banks to maintain a capital adequacy ratio of 10% of risk-weighted assets.