

**JOINT STOCK COMPANY
“BALTIC INTERNATIONAL BANK”
2003 ANNUAL REPORT**

TABLE OF CONTENTS

	Page
Management Report	3
Supervisory Council and Management Board	5
Statement of Management's Responsibilities	6
Independent Auditors' Report	7
Statements of Profit and Loss	8
Balance Sheets and Off-Balance Sheet Items	9
Statements of Changes in Shareholders' Equity	11
Statements of Cash Flows	12
Notes to the Financial Statements	14

MANAGEMENT REPORT

Dear Ladies and Gentlemen,

In the year 2003, Latvian financial industry has once again made further headway in terms of core performance indicators. The aggregate assets of the Latvian banking sector totaled almost 5.716 billion lats (around 10 billion euro), or a 29.3 percent rise versus 2002-end. Also, the volume of private and corporate deposits grew by 21.3 per cent – to stand at 3.737 billion lats. Customer confidence in Latvian banks exhibits a trendlike increase.

Having celebrated its ten-year anniversary and having confirmed its successful activity by the positive dynamics of the financial variables, JSC "Baltic International Bank" continues posing and achieving new tasks and targets.

In 2003, the Bank focused its efforts on significant changes with a view to enhance the effectiveness of the Bank's business and to give a stimulus to the growth of its core performance ratios.

In the internal administration of the Bank a focus area was the reshuffle of the management structure. The Shareholder Council decided to elect new members of the Bank's Board and to establish the Council of Directors. Such an initiative was driven by necessity to segregate executive functions from those of regulatory character, which in turn entailed the restructuring of the Bank's various divisions.

Like the banking industry in Latvia overall, JSC "Baltic International Bank" boosts its potential. The increase in the Bank's assets is a testimony to the fact. In 2003, the Bank's assets attained the level of 35 079743 lats from 30 392 764 lats in 2002. The volume of customer deposits increased by 3 million lats. The volume of customer payments increased by 30 per cent, which is indicative of the constantly increasing customer activity. The two factors continue fostering the rise in the Bank's core financials.

In 2003, the Bank's credit portfolio increased to stand at 13 005 286 lats at the end of the reporting period. As for commercial and industrial loans, they show a stable tendency for growth.

In 2003, like in 2002, loans to private companies - residential borrowers - made the largest share of the Bank's loan portfolio.

During the reporting year the Bank's shareholders increased the Bank's share capital to 7 611 285 lats. The Bank's net profit in 2003 made 536 843 lats, or a 73 percent increase as compared to 2002 (309 565 lats).

In the year 2003, international credit rating agency *Moody's Investors Service* assigned the following ratings to the Bank:

- Long-term deposits – B1;
- Short-term deposits – Not-Prime;
- Financial stability – E+;
- Development outlook - stable.

The Bank's further development is primarily wrapped up with the expansion of customer base in terms of its quality and quantity, which has been set as a priority task for the Bank in the year 2004.

A major emphasis is placed on the Bank's reputation risk reduction. Therefore the Bank actively works towards the prevention of money laundering (the processing of criminal proceeds to disguise their illegal origin).

In 2004, the Bank plan envisages implementing the TRANSMaster card processing system designed to ensure the production and processing of chip cards and streamlining of magnetic strip cards functionality.

Surely, 2004 will be an eventful year for Latvia because of the country's accession to the European Union. Therefore, economic events and changes in the legal regulations applicable to the state performance, including the financial area, are likely to be seen. The Bank, along with other market participants, embarks on the partnership with the EU's Structural Funds so as to provide funding facilities for the development of local businesses.

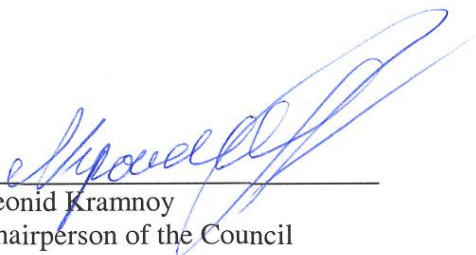
JSC "BALTIC INTERNATIONAL BANK"
ANNUAL REPORT 2003

As we are facing sweeping changes, a major challenge to the Bank is to get assurance that the Bank is prepared for new battles in the financial area and that the Bank will continue moving ahead and augmenting its potential and strength, while remaining committed to its corporate values.

In conclusion, we wish to express our heartiest gratitude to all of the Bank's customers and business partners who stay with the Bank for many years. We will be happy to see new customers for whom we may offer a package of bank services as may be necessary and appropriate for their business.

Finally, a special word of thanks is also due to the staff of the Bank for their commitment to work, which enables the Bank to attain the objectives posed and to set the new ones.

We know for sure that tomorrow's day will appear to have been stable and successful.



Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council (as at December 31, 2003)

Name	Position held	Appointed	Re-elected
Leonid Kramnoy	Chairperson of the Council	10/10/2003	-
Vilori Belokon	Deputy Chairperson of the Council	10/10/2003	-
Viacheslav Kramnoy, sr.	Member of the Council	18/07/1997	10/10/2003

Management Board (as at December 31, 2003)

Name	Position held	Appointed	Re-elected
Valeri Belokon	Chairperson of the Board	15/08/2003	-
Tatiana Valikova	Deputy Chairperson of the Board	15/08/2003	-
Janis Apelis	Member of the Board	15/08/2003	-
Anita Lase	Member of the Board	15/08/2003	-
Alon Nodelman	Member of the Board	15/08/2003	-
Maria Guliyeva	Member of the Board	15/08/2003	-
Ilona Gulchak	Member of the Board	15/08/2003	-

In the year 2003, the following changes were made in the Council's and Board's membership:

The Bank's Council:

In accordance with JSC "Baltic International Bank's" decision taken by General Shareholder meeting held on 9 September 2003, Valeri Belokon was released from the position of Chairperson of the Bank's Council and Viacheslav Kramnoy jr. was released from the position of the Bank's Council member.

The Bank's Board:

In accordance with JSC "Baltic International Bank's" decision taken by the Bank's Council on 11 August 2003, Alla Tkachenko was released from the position of Chairperson of the Bank's Board, Eugenia Litovchenko was released from the position of Deputy Chairperson of the Bank's Board, Vilori Belokon, Leonid Kramnoy, Evita Ostrovska, Natalja Tkachenko, Dace Kepite were released from the position of the Bank's Board member, and Albert Reznik was released from member of the Board nominee.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Riga


15 March 2004

On behalf of JSC "Baltic International Bank" (hereinafter referred to as the *Bank*) management Mr. Leonid Kramnoy, Chairperson of the Council, and Mr. Valeri Belokon, Chairperson of the Board, are pleased to inform that the 2003 Financial Statements have been prepared pursuant to the applicable laws and regulations of the Republic of Latvia. The 2003 Financial Statements present a true and fair view of the credit institution's financial position as at the accounting year-end, and its operational results in the accounting year and cash flows.


The Bank's accounting records have been kept in full compliance with the regulatory enactments, and at the same time the Bank management's responsibility is to assure safety of the Bank's assets and to prevent fraud and other wrongful acts. The Bank's management ensures that the Bank's financial business is transacted in accordance with the effective law "On Credit Institutions", other laws and legislative decrees in force, and the Bank of Latvia's and Financial and Capital Market Commission's regulatory requirements.

The 2003 Financial Statements have been prepared following the appropriate accounting principles, as consistently maintained by the Bank. The prudence concept and conservatism underlie the Bank's decisions and assumptions relating to the preparation of these Financial Statements. The Bank's management declares that International Financial Reporting Standards have been followed and every single significant variation has been duly mirrored in the covering notes.

On behalf of the Bank's Management



Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Baltic International Bank":

We have audited the accompanying balance sheets of a JSC "Baltic International Bank" (the Bank) as of 31 December 2003 and 2002 and the related statements of profit and loss, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing issued 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards, the requirements of the Financial and Capital Market Commission and other legislation of the Republic of Latvia.

Deloitte & Touche Audits SIA
Licence No. 43



Ian Dent
Audit Director
Identity No: 051262-14673



Marija Rubcova
Sworn auditor
Certificate No. 54
Identity No: 020655-13069

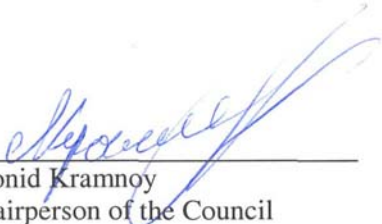
Riga, Latvia
15 March 2004

STATEMENTS OF PROFIT AND LOSS


	Notes	2003 LVL	2002 LVL
Interest income	4	1 657 275	1 857 290
Interest expense	5	(765 573)	(1 054 323)
Income from securities	6	4 607	1 493
Fee and commission income	7	783 002	601 254
Fee and commission expense	8	(217 993)	(197 398)
Gain from trading in financial instruments	9	514 181	116 174
Other operating income	10	104 922	111 499
Administrative expenses	11	(1 617 327)	(1 153 833)
Depreciation of intangible assets and fixed assets	22, 23	(178 748)	(144 788)
Provisions for doubtful debts and off-balance sheet liabilities	17	(2 086 200)	(73 048)
Release of provisions		52 583	170 645
Gain from revaluation of long-term financial investments	19	<u>2 417 115</u>	<u>74 600</u>
Current year profit before taxation		<u>667 844</u>	<u>309 565</u>
Corporate income tax	12	<u>(131 001)</u>	<u>-</u>
Current year profit after taxation		<u>536 843</u>	<u>309 565</u>
Earnings per share		<u>0,35266</u>	<u>0,26349</u>

The accompanying notes on pages 14 to 34 are an integral part of the current financial statements.

The Management Board approved these financial statements on pages 8 to 34 on 15 March 2004.



Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board

BALANCE SHEETS AND OFF - BALANCE SHEET ITEMS

ASSETS	Notes	2003	2002
		LVL	LVL
Cash and balances with the central Bank	14	1 144 301	1 228 121
Due from credit institutions and central banks	15	13 434 826	13 599 927
<i>On demand</i>		<i>6 891 811</i>	<i>13 469 247</i>
<i>Others</i>		<i>6 543 015</i>	<i>130 680</i>
Loans	16	13 005 286	11 707 358
Debt securities and other fixed-income securities	18 (a)	1 199 017	876 183
<i>Government debt securities</i>		<i>335 512</i>	<i>423 081</i>
<i>Other debt securities and fixed-income securities</i>		<i>863 505</i>	<i>453 102</i>
Shares and other non-fixed-income securities	18 (b)	336 733	270 440
Derivative contracts	20	194 101	47 485
Investments in associated companies	21	127 111	127 111
Intangible assets	22	220 568	159 349
Fixed assets and investment property	23	5 140 232	2 013 788
Deferred expenses and accrued income	24	195 697	260 140
Other assets	25	81 871	102 862
Total assets		<u>35 079 743</u>	<u>30 392 764</u>

(to be continued)

The accompanying notes on pages 14 to 34 are an integral part of the current financial statements.

BALANCE SHEETS AND OFF- BALANCE SHEET ITEMS

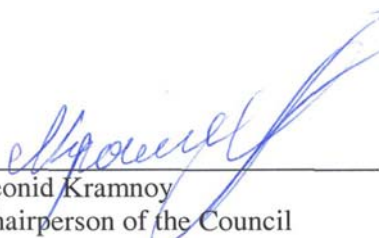
LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	2003 LVL	2002 LVL
Due to credit institutions and central banks	26	3 396 985	3 451 555
<i>On demand</i>		1 384 481	2 473 355
<i>Others</i>		2 012 504	978 200
Customer deposits	27	25 216 889	22 420 000
<i>On demand</i>		14 558 679	10 273 001
<i>Other customer deposits</i>		10 658 210	12 146 999
Derivative contracts	20	166 565	49 572
Deferred income and accrued expenses	28	216 681	249 542
Accruals for liabilities and payments	29	164 748	18 385
Other liabilities	30	202 205	163 874
Subordinated liabilities	31	369 429	967 413
Total liabilities		29 733 502	27 320 341
Shareholders' equity	32	5 346 241	3 072 423
<i>Share capital</i>		7 611 285	5 874 310
<i>Reserve capital and other reserves</i>		545 024	545 024
<i>Accumulated deficit</i>		(3 346 911)	(3 656 476)
<i>Profit for the current year</i>		536 843	309 565
Total liabilities and shareholders' equity		35 079 743	30 392 764
OFF-BALANCE SHEET ITEMS	36		
Contingent liabilities		1 219 335	222 627
<i>Guarantees</i>		1 219 335	222 627
Commitments to customers		1 304 741	1 142 902
<i>Other commitments</i>		1 304 741	1 142 902
Total off-balance sheet items		2 524 076	1 365 529

(conclusion)

The accompanying notes on pages 14 to 34 are an integral part of the current financial statements.

The Management Board approved these financial statements on pages 8 to 34 on 15 March 2004.



Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Paid-in share capital LVL	Reserve capital and other reserves LVL	Accumulated deficit LVL	TOTAL LVL
Balance as at 31 December 2001		5 874 310	545 024	(3 656 476)	2 762 858
Profit for the current year		-	-	309 565	309 565
Balance as at 31 December 2002		5 874 310	545 024	(3 346 911)	3 072 423
Share capital increase	32	1 736 975	-	-	1 736 975
Profit for the current year		-	-	536 843	536 843
Balance as at 31 December 2003		7 611 285	545 024	(2 810 068)	5 346 241

The accompanying notes on pages 14 to 34 are an integral part of the current financial statements.

STATEMENTS OF CASH FLOWS

In accordance with the Financial and Capital Market Commission's regulatory requirements

	Notes	2003 LVL	2002 LVL
Cash flow from operating activities			
Profit before taxes		667 844	309 565
Depreciation and amortization of intangible and fixed assets		194 237	144 788
(Decrease)/increase in provisions for doubtful debts and off-balance sheet commitments		1 777 084	(128 947)
Loss from translation of foreign currencies		556 366	219 535
(Profit) from revaluation of long-term financial investments		(2 433 000)	(74 600)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		762 531	470 341
Increase/(decrease) in deferred income and accrued expenses		(32 861)	56 399
(Increase)/decrease in deferred expenses and accrued income		51 088	(32 583)
(Increase)/decrease in other assets		(127 138)	507 796
Increase/(decrease) in other liabilities		155 324	(306 558)
Increase/(decrease) in accruals for liabilities and payments		15 362	(11 002)
(Increase)/decrease in short-term investments		(389 127)	214 341
Decrease in balances due from credit institutions and central banks		11 884	781
(Increase) in loans		(3 060 148)	(4 758 420)
Increase in balances due to credit institutions and central banks		508 119	206 000
Increase in deposits		2 796 889	4 001 675
Increase in cash and cash equivalents from operating activities		691 923	348 770
Cash flow from investing activities			
(Purchase) of fixed assets and intangible assets		(948 900)	(439 359)
Proceeds from sales of fixed assets and intangible assets		-	2 029
Proceeds from sales of stakes held in enterprises/companies		-	25 000
(Decrease) in cash and cash equivalents as a result of investing activities		(948 900)	(412 330)
Cash flow from financing activities			
(Decrease) in subordinated liabilities		(597 984)	(61 123)
Increase in share capital		1 736 975	-
Increase/(decrease) in cash and cash equivalents as a result of financing activities		1 138 991	(61 123)
(Decrease)/increase in cash and cash equivalents		882 014	(124 683)
Opening balance of cash and cash equivalents	33	11 570 613	11 914 831
(Loss) from foreign currency translation	9	(556 366)	(219 535)
Closing balance of cash and cash equivalents	33	11 896 261	11 570 613

The accompanying notes on pages 14 to 34 are an integral part of the current financial statements.

STATEMENTS OF CASH FLOWS

In accordance with the International Financial Reporting Standard

	Notes	2003 LVL	2002 LVL
Cash flow from operating activities			
Profit before taxes		667 844	309 565
Depreciation and amortization of intangible and fixed assets		194 237	144 788
(Decrease)/increase in provisions for doubtful debts and off-balance sheet commitments		1 777 084	(128 947)
Loss/(profit) from translation of foreign currencies		556 366	219 535
(Profit) from revaluation of long-term financial investments		(2 433 000)	(74 600)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		762 531	470 341
Increase/(decrease) in deferred income and accrued expenses		(32 861)	56 399
(Increase)/decrease in deferred expenses and accrued income		51 088	(32 583)
(Increase)/decrease in other assets		(127 138)	507 796
Increase/(decrease) in other liabilities		155 324	(306 558)
Increase/(decrease) in accruals for liabilities and payments		15 362	(11 002)
(Increase)/decrease in short-term investments		(389 127)	214 341
Decrease in balances due from credit institutions and central banks		11 884	781
(Increase) in loans		(3 060 148)	(4 758 420)
Increase/(decrease) in balances due to credit institutions and central banks		(54 570)	3 335 051
Increase in deposits		2 796 889	4 001 675
Increase in cash and cash equivalents from operating activities		129 234	3 477 821
Cash flow from investing activities			
(Purchase) of fixed assets and intangible assets		(948 900)	(439 359)
Proceeds from sales of fixed assets and intangible assets		-	2 029
Proceeds from sales of stakes held in enterprises/companies		-	25 000
(Decrease) in cash and cash equivalents as a result of investing activities		(948 900)	(412 330)
Cash flow from financing activities			
(Decrease) in subordinated liabilities		(597 984)	(61 123)
Increase in share capital		1 736 975	-
Increase/(decrease) in cash and cash equivalents as a result of financing activities		1 138 991	(61 123)
Increase in cash and cash equivalents		319 325	3 004 368
Opening balance of cash and cash equivalents	33	14 816 168	12 031 335
(Loss) from foreign currency translation	9	(556 366)	(219 535)
Closing balance of cash and cash equivalents	33	14 579 127	14 816 168

The accompanying notes on pages 14 to 34 are an integral part of the current financial statements.

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

JSC Baltic International Bank's (hereinafter referred to as the Bank) principal activity is rendering banking services to private individuals and legal entities in areas such as lending, acceptance of deposits, customer funds transfer, diverse transactions in the financial market by order of the clients and for the Bank's trading purposes.

The largest share of the Bank's customer base is represented by Latvian and cross-border large corporate customers. The principle of conservatism underlies the Bank's customer policy. To choose potential customers to partner with, the Bank uses a set of criteria. Abiding by this principle ensures top-level customer service complemented by treating each customer differently to meet the customer's exact needs, which in turn drives down chances of partnering with risky clients. When choosing customers, the Bank focuses strongly on the issues relating to the prevention of money laundering since in recent years these issues have become exceptionally vital.

The law "On Credit Institutions", the law "On the Prevention of Money Laundering", other laws, and the Financial and Capital Market Commission's regulations provide the framework under which the Latvian banking industry operates.

2. INTERPRETATION OF ACCOUNTING POLICIES AND THE PRINCIPLES OF ASSESSMENT

General principles of accounting

The Bank's financial statements are prepared following International Financial Reporting Standards. Initially the financial statements are prepared under the historical cost convention. Subsequently certain financial instruments are re-measured and recognized in the financial statements at their fair value.

Foreign currency translation

The presentation currency of the Bank's financial statements is the lat of the Republic of Latvia (LVL). All assets and liabilities as well as off-balance sheet claims and commitments denominated in foreign currencies are translated into lats according to the Bank of Latvia's established exchange rate at the reporting period-end. Gains and losses resulting from the effect of exchange rate fluctuations are recognized in the profit and loss account for the reporting period.

The official exchange rates used on the day of the translation are as follows:

Currency		The Bank of Latvia's rate valid as at 31.12.2003	The Bank of Latvia's rate valid as at 31.12.2002
1 BYR	=	LVL 0.000250	LVL 0.000308
1 EUR	=	LVL 0.674000	LVL 0.610000
1 GBP	=	LVL 0.960000	LVL 0.946000
1 RUB	=	LVL 0.018400	LVL 0.018700
1 USD	=	LVL 0.541000	LVL 0.594000

Accounting for income and expenses

The reporting periods - related income and expenses are included in the Statements of Profit and Loss regardless of when they were received and paid. All interest income and expenses are recognized in the financial statements on an accruals basis. Accrued interest income is calculated only on loans categorized as *standard* and *watch*. Fees and commission received from customers are included in the income as at the transaction date, unless otherwise provided by the relevant agreement between the Bank and the customer.

Investments

The Bank's investments fall into two portfolios: the Bank's portfolio and the trading portfolio.

(a) Securities purchased for investment purposes (the Bank's portfolio)

The Bank's investment portfolio comprises government securities and corporate bonds, which are recognized at amortized cost. Held-to-maturity securities are accounted for using a settlement date basis for purchases. Initially, held-to-maturity securities are recorded at their purchase value adjusted for discounts or premiums. Subsequently the straight-line method is used for amortizing discounts over the term to maturity. There is no material difference between the result obtained and that, which might have been obtained based on the effective interest method.

(b) Securities purchased for trading purposes (the trading portfolio)

The Bank acquires trading securities for speculative purposes. The Bank's trading portfolio comprises fixed-income and non-fixed-income securities issued by the Latvian and cross-border issuers. Trading securities are accounted for using the settlement date basis for both purchases and sales. Trading securities are initially recognized at purchase cost (which includes transaction costs) and subsequently re-measured at fair value based on market prices. Realized and unrealized gains or losses are recorded as net trading income or net trading loss, respectively.

The re-classification of financial instruments from the trading portfolio to the investment portfolio is not allowed. The re-classification of a financial instrument from the Bank's portfolio to the trading portfolio is allowed in the following cases: where behavior of a financial instrument is impossible to forecast and the financial markets signal a sharp fluctuation in prices and exchange rates; where the Bank's investment policy or business strategy is revised.

Financial contracts

The Bank trades derivative contracts and executes other off-balance sheet financial transactions.

(a) Derivative instruments

As for derivative contracts, the Bank is a party to foreign currency *forward* and *swap* contracts. Gains or losses resulting from changes in currency exchange rates as at the transaction date are recognized in the statements of profit and loss as a profit or loss from the revaluation of positions in foreign currencies. Also, the Bank's derivative contracts comprise *options*. Where *options* are involved, option premiums paid are recognized in the balance sheet at market prices.

(b) Other off - balance sheet financial transactions

In its daily business, the Bank is involved in off-balance sheet financial transactions associated with lending, the issuance of bank guarantees and letters of credit. These financial transactions are recorded in the financial statements as at the relevant agreement's sealing date. Since such off-balance sheet liabilities are exposed to off-balance sheet risks differing in their levels, in the financial statements off-balance sheet liabilities are included in the capital adequacy calculation, liquidity risk analysis and currency risk analysis.

Loans and provisions

In the financial statements loans are recorded at their book value, i.e., issued and still outstanding loan principals less specific loan loss provisions held against non-performing loans.

Provisions for possible loan losses are created in line with International Financial Reporting Standards and the Financial and Capital Market Commissions' regulations and they represent possible loan loss amounts as at the financial statements date. The Bank reviews the amount of provisions held against non-performing loans on a regular basis and, if necessary, makes adjustments based on risk exposure properly measured for each loan to fully comply with the Bank's Loan Policy. Whenever a loan is recognized as a non-performing loan, loan loss reserves are released from the provisions account and the loan is written off the balance sheet. The collateral underlying non-performing loans is included in other assets at its estimated recoverable market value. The value of the previously written-off and ultimately recovered loans is recorded in the statements of profit and loss as earnings in the respective period, when it has been repaid.

Intangible assets

The Bank's intangible assets comprise licenses, which are necessary for the Bank's normal performance, and an array of software programs. The Bank's intangible assets are accounted for at their historical cost less depreciation. Intangible assets amortisation term is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, then the Bank amortises the intangible asset into expenses over a period of 5 years. The Bank applies the straight-line method of depreciation to write off intangible assets, based on the assumption that intangible assets constantly lose their value.

Fixed assets

Fixed assets are recorded in the Bank's financial statements at their historical cost less depreciation. Fixed assets having a purchase price below 100 lats are expensed at the moment of purchase. Fixed assets purchased for foreign currency are accounted for in lats at the Bank of Latvia's established rate valid as at the assets factual delivery date.

The depreciation terms of the Bank's fixed assets are as follows:

Buildings and constructions	50 years
Machinery	5 years
Cars	5 years
Other fixed assets	10 years
Computers	5 years

As for construction projects and land plots, depreciation is not calculated. Fixed asset maintenance and routine repair - related expenses are included in the profit and loss account when they arise. The Bank's own fixed asset overhaul - related expenses are added to the respective asset on the balance sheet. Leasehold improvement are included in the balance sheet item "Deferred expenses" and are depreciated over their related rent term.

Investment property

In accordance with International Financial Reporting Standards and the Financial and Capital Market Commission's requirements investment property is initially recognized in the balance sheet at its purchase value, including purchase costs. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Changes in value are recorded in the statements of profit and loss in "Gain or loss from revaluation of long-term financial investments" item.

Investments in the related companies

Investments in subsidiaries (i.e. companies over which the Bank has more than 50% of the voting rights, or over which the Bank maintains material control) are shown using the equity method, under which the Bank's owned share of the related company, as resulting from the financial activity, is included into the Bank's profit and loss statement. Therefore, the book value of the investment is equal to the Bank's owned share of the equity.

Repo operations (*repos*)

Securities sold under repurchase agreements (*repos*) are recorded in the financial statements along with other securities, while the Bank's commitments are included in the respective items in the liabilities-side of the balance sheet, as "Due to credit institutions" or "Deposits" depending on the agreement's characteristics.

Fair value of financial assets and liabilities

Fair value is based on the intentions for further activity of the Bank in certain financial assets and financial liabilities, taking into account its current financial position. The initial evaluation of financial assets and financial liabilities of the Bank is carried out at the fair value of the included asset and received liability for its repayment, including the transaction costs. The subsequent evaluation of financial assets and liabilities in the Bank's balance sheet is carried out at depreciated cost, excluding trading assets and liabilities and derivatives. The fair value of a financial asset and financial liability is established by means

of an evaluation method based on the initial data of the market, interest rates, norms of determined losses for granted loans, and the coefficient for discounting. The trading portfolio, consisting of the securities of the Bank, is carried at fair value, which is based on published quotes on active markets.

Money in transits

At the accounting period-end "Money in transits" is included in the respective customer's account balances.

Cash and cash equivalents

For the purpose of compliance with the regulations of the Financial and Capital Market Commission, cash and cash equivalents in the statement of cash flows comprises cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

For the purpose of compliance with International Financial Reporting Standards, cash and cash equivalents comprises cash and deposits with the Bank on Latvia and other credit institutions with a maturity of less than 3 months when purchased.

Corporate income tax

Corporate income tax in the Republic of Latvia is a direct tax on profits, which is collected at the rate of 19%. Deferred tax liabilities or claims arise from temporary differences insofar as the Bank's income and expenses stated in tax return and their carrying amounts in the financial statements are not recognized at the same time. Deferred tax liabilities or claims arise for the Bank as a result of short-term differences, connected with non-simultaneous recognition of income and expense in the financial statements or tax declaration prepared by the Bank. Deferred taxes apply to the probable future tax claims and liabilities for all transactions and events, recognized in the financial statements or tax declaration of the Bank. Basic short-term differences arise because of differences between the depreciation rates of fixed assets, used for financial accounting and for tax purposes, and general accruals for bad debts and other expenses.

3. RISK MANAGEMENT

The Bank's financial business is exposed to various risks, of which core risk categories are credit risk, liquidity risks, currency risk and trading risk. All the aforementioned risks stem from the impairment of the borrower's credit solvency, exchange rates fluctuations, interest rates fluctuations, and other factors. The Bank's risk management policies set forth regulatory limits on risk transactions and outline the procedures leveled at risk mitigation across all of the Bank's business areas. The Bank's Board, the Council of Directors and two committees - the Credit Committee and the Resources Supervision Committee - continuously verify compliance with the regulatory requirements and the guidelines outlined in the Bank's internal documents. In view of the expansion of the Bank's activity and the evolvement of the financial market, the Bank regularly improves its risk management system over which the Internal Audit Department maintains continuing control.

Credit risk

Credit risk is the risk that the Bank may sustain losses through the Bank's counterpart or debtor's failure to meet contractual obligations vis-à-vis the Bank.

For the purpose of minimizing credit risk, the Bank has set internal limits on various deals and transactions, for instance, limits to the amount involved in the transaction with any borrower (including any bank), depending on the borrower's financial position, registration and the region where the borrower's business is based, and depending on the amount and type of the underlying collateral, currency of the transaction, and other criteria. All of the said restrictions are set forth by the Bank's internal policies and regulations. The Bank's structural units are obligated to maintain set limits and the Resources Supervision Committee, the Credit Committee and the Bank's Board are charged with the control function. The Bank's adopted procedures are designed to trace, analyse and monitor credit risk, complemented by the maintenance of limits set by internal policies and regulations, to ensure that a multilateral control system is in place whenever the Bank seals any deals associated with the placement of funds.

Liquidity risk

Liquidity is the Bank's ability to ensure that its unexpected or forecasted financing needs are satisfied to meet legally proven claims of the Bank's creditors. Liquidity is understood as the Bank's ability to convert assets into ready cash with the minimal losses or to borrow funds at a reasonable price.

The Bank meets its liquidity requirements in compliance with the Bank's adopted Liquidity Management Policy, as adopted by the Bank's Board and Council. The Policy sets forth terms for overall net position limits on a maturity basis. The Resources Supervision Committee is charged with the responsibility of abiding by and implementing of the provisions outlined in the Bank's policy. The Committee sets appropriate liquidity net positions sub-limits on the maximum volume of deposits attracted from one customer (interrelated customer group), and other restrictions. It also ensures the maintenance of set limits and adherence to the procedures.

To maintain the required liquidity level, every month the Resources Supervision Committee makes a number of assumptions as to the withdrawal of deposits and determines the amount of doubtful deposits, forecasts the increase in demand for loans and changes in the market situation. Also, the Bank's Liquidity Policy envisages the scenario of how to address the Bank's liquidity problem and to deal with a liquidity crisis in the event of its incidence.

To comply with the Financial and Capital Market Commission, the Bank is obligated to hold sufficient liquid assets reserve to meet its financial commitments, but not less than 30% of the Bank's total current liabilities.

As at 31 December 2003, the Bank's liquidity ratio stood at 70%.

ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE as at 31 December, 2003

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 years and more	TOTAL
ASSETS	LVL							
Cash and balances with the central Bank	1 144 301	-	-	-	-	-	-	1 144 301
Due from credit institutions and central banks	6 891 811	6 272 515	270 500	-	-	-	-	13 434 826
Loans	885 326	1 424 329	589 000	179 718	2 118 991	5 583 444	2 224 478	13 005 286
Debt securities and other fixed-income securities	1 199 017	-	-	-	-	-	-	1 199 017
<i>Government debt securities</i>	335 512	-	-	-	-	-	-	335 512
<i>Other debt securities and fixed-income securities</i>	863 505	-	-	-	-	-	-	863 505
Shares and other non-fixed-income securities	79 731	-	-	-	-	-	257 002	336 733
Derivative financial instruments	186 820	7 281	-	-	-	-	-	194 101
Investments in associated companies	-	-	-	-	-	-	127 111	127 111
Intangible assets	-	-	-	-	-	-	220 568	220 568
Fixed assets and investment property	-	-	-	-	-	-	5 140 232	5 140 232
Deferred expenses and accrued income	35 058	76 953	22 178	18 404	32 691	1 889	8 524	195 697
Other assets	25 488	-	-	-	-	-	56 383	81 871
Total assets	10 447 552	7 781 078	881 678	198 122	2 151 682	5 585 333	8 034 298	35 079 743
LIABILITIES								
Due to credit institutions	1 384 481	730 350	568 034	-	714 120	-	-	3 396 985
Customer deposits	14 558 679	3 710 565	1 189 986	1 593 884	2 089 731	2 073 368	676	25 216 889
Derivative financial instruments	136 115	10 997	14 268	5 185	-	-	-	166 565
Deferred income and accrued expenses	19 454	57 105	22 809	13 773	83 279	11 939	8 322	216 681
Accruals for liabilities and payments	33 747	-	-	-	-	131 001	-	164 748
Other liabilities	202 205	-	-	-	-	-	-	202 205
Subordinated liabilities	-	-	-	-	-	362 261	7 168	369 429
Off-balance sheet liabilities*	1 759 316	-	-	-	-	-	-	1 759 316
Total liabilities	18 093 997	4 509 017	1 795 097	1 612 842	2 887 130	2 578 569	16 166	31 492 818
Maturity gap	(7 646 445)	3 272 061	(913 419)	(1 414 720)	(735 448)	3 006 764	8 018 132	3 586 925
Maturity gap as of 31 December 2002	2 489 985	(2 872 531)	(608 970)	(2 552 885)	(311 456)	2 657 222	2 957 940	1 743 005

**JSC "BALTIC INTERNATIONAL BANK"
ANNUAL REPORT 2003**

*Off-balance sheet liabilities are diminished by the amount of the issued guarantees, which are secured by deposits placed with the Bank and totaling LVL 764 760.

Currency risk

Exchange rate fluctuations may affect the Bank's financial position and cash flow. Currency risk inherent in the transactions is calculated separate for each currency with respect to foreign currency-denominated assets and liabilities and the projected cash flow from derivative financial instruments.

To monitor currency risk, the Bank has formulated the Currency risk management policy. The Resources Supervision Committee's responsibility is to ensure that the regulatory requirements outlined in the Policy are implemented. The regulatory requirements impose restrictions on the size of currency conversion transactions and the open position in currencies. Under the Law "On Credit Institutions", the open position in one foreign currency may not exceed 10%, while the overall open position in currencies may not exceed 20% of the Bank's equity. In the financial market the Bank seals and trades *spot*, *swap* and *forward* contracts on the delivery of foreign currencies.

ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE as at 31 December, 2003

ASSETS	LVL	USD	EUR	RUB	BYR	Other currencies	TOTAL LVL
Cash and balances with the Central Bank	941 541	174 698	20 453	-	-	7 609	1 144 301
Due from credit institutions and central banks	7 838	11 209 588	722 869	727 096	722 933	44 502	13 434 826
Loans	3 029 838	7 479 528	2 495 920	-	-	-	13 005 286
Debt securities and other fixed-income securities	299 320	899 697	-	-	-	-	1 199 017
Shares and other non-fixed-income securities	249 116	79 731	7 886	-	-	-	336 733
Derivative financial instruments	194 101	-	-	-	-	-	194 101
Investments in associated companies	127 111	-	-	-	-	-	127 111
Intangible assets	220 568	-	-	-	-	-	220 568
Fixed assets and investment property	5 140 232	-	-	-	-	-	5 140 232
Deferred expense and accrued income	90 948	101 077	897	67	2 668	40	195 697
Other assets	48 368	32 718	785	-	-	-	81 871
Total assets	10 348 981	19 977 037	3 248 810	727 163	725 601	52 151	35 079 743
LIABILITIES							
Due to credit institutions and central banks	23	3 396 857	105	-	-	-	3 396 985
Loans	1 942 315	20 589 078	1 788 008	402 765	462 332	32 391	25 216 889
Derivative financial instruments	166 565	-	-	-	-	-	166 565
Deferred income and accrued expenses	105 095	105 973	2 764	2	2 765	82	216 681
Accruals for liabilities and payments	164 748	-	-	-	-	-	164 748
Other liabilities	30 280	146 671	19 150	5 082	545	477	202 205
Subordinated liabilities	37 168	332 261	-	-	-	-	369 429
Shareholders' equity	5 346 241	-	-	-	-	-	5 346 241
Total liabilities	7 792 435	24 570 840	1 810 027	407 849	465 642	32 950	35 079 743
BALANCE POSITION	2 556 546	(4 593 803)	1 438 783	319 314	259 959	19 201	-
Sureties and guarantees	-	(156 349)	-	-	-	-	(156 349)
Unsettled <i>spot</i> contracts	(2 717 369)	4 503 494	(1 023 287)	(312 800)	(50 000)	28 800	-
<i>Forward</i> contracts	(322 536)	(142 045)	(139 792)	-	203 071	-	-
NET POSITION	(483 359)	(388 703)	275 704	6 514	413 030	48 001	
Ratio to the shareholders' equity(%)*		-7%	5%	0%	8%		

The ratio for the overall open position in foreign currencies and gold to the Bank shareholders' equity as of 31 December 2003 stood at 15%.

The ratio for the overall open position in foreign currencies and gold to the Bank shareholders' equity as of 31 December 2002 stood at 9%.

* Equity (net worth) totaling as of 31 December 2003 LVL 5 240 015 (2002 LVL 3 513 548)

Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will adversely affect the Bank's financial position.

One of the methods used to manage the Bank's interest rates risk includes the opportunity for the Bank, as stipulated in loan agreements, on its own initiative to reset the interest rate applied on the loan depending on the movements in the market rate. To monitor interest rate risk, the Bank analyses interest margin on a regular basis. The Resources Supervision Committee sets limits on interest rates applied on loans and overdrafts, and also on deposits and current accounts. The Bank's Board regularly resets the Bank's approved interest rates based on the analysis of the current situation at the Bank and based on predictions for the rise or fall of interest rates of a certain currency.

	Average monthly balance LVL	Interest LVL	2003 Average weighted interest rate %	Average monthly balance LVL	Interest LVL	2002 Average weighted interest rate %
ASSETS						
Cash and balances with the Central Bank	1 131 202	-	0%	1 283 759	-	0%
Due from credit institutions and central banks	12 303 266	392 849	3%	8 413 261	596 575	7%
<i>On demand</i>	9 170 831	73 411	1%	8 058 272	475 808	6%
<i>Others</i>	3 132 435	319 438	10%	354 989	120 767	34%
Loans	14 762 554	1 210 144	8%	12 354 948	1 206 982	10%
<i>Loans (gross)</i>	16 132 396	1 210 144	8%	12 817 524	1 206 982	9%
<i>Specific provisions for doubtful loans</i>	(1 369 842)	-	-	(462 576)	-	-
Debt securities and other fixed-income securities	1 150 339	54 282	5%	1 041 496	53 733	5%
(a) TOTAL ASSETS	29 347 361	1 657 275	6%	23 093 464	1 857 290	8%
LIABILITIES						
Due to credit institutions and central banks	3 755 370	30 886	1%	1 373 242	36 056	3%
<i>On demand</i>	1 884 400	-	0%	675 900	-	0%
<i>Others</i>	1 870 970	30 886	2%	697 342	36 056	5%
Deposits	22 885 850	720 738	3%	19 288 372	980 476	5%
<i>On demand</i>	11 394 336	18 525	0%	9 818 020	60 682	1%
<i>Others</i>	11 491 514	702 213	6%	9 470 352	919 794	10%
Subordinated liabilities	656 556	13 949	2%	999 249	37 791	4%
(b) TOTAL LIABILITIES	27 297 776	765 573	3%	21 660 863	1 054 323	5%
Paid-in share capital	7 177 041	-	0%	5 874 310	-	0%
(c) TOTAL LIABILITIES	34 474 817	765 573	2%	27 535 173	1 054 323	4%
Net interest income		891 702			802 967	
Assets and liabilities interest margin						
% (a)-(b)			3%			3%
Assets and liabilities interest margin						
% (a)-(c)			4%			4%

**ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE
BASED ON FLUCTUATING INTEREST RATES
as at December 31, 2003**

	Up to 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 year and more LVL	Unpaid interest LVL	TOTAL LVL
ASSETS							
Cash and balances with the central banks	-	-	-	-	-	1 144 301	1 144 301
Due from credit institutions and central banks	11 404 762	1 027 028	-	54 105	-	948 931	13 434 826
Loans	13 005 286	-	-	-	-	-	13 005 286
Debt securities and other fixed-income securities	11 147	18 440	1 158 196	-	-	11 234	1 199 017
<i>Government debt securities</i>	-	-	335 512	-	-	-	335 512
<i>Other debt fixed-income securities</i>	11 147	18 440	822 684	-	-	11 234	863 505
Shares and other non-fixed income securities	-	-	-	-	-	336 733	336 733
Derivative financial instruments	-	-	-	-	-	194 101	194 101
Investments in associated companies	-	-	-	-	-	127 111	127 111
Intangible assets	-	-	-	-	-	220 568	220 568
Fixed assets and investment property	-	-	-	-	-	5 140 232	5 140 232
Deferred expense and accrued income	-	-	-	-	-	195 697	195 697
Other assets	-	-	-	-	-	81 871	81 871
Total assets	24 421 195	1 045 468	1 158 196	54 105	-	8 400 779	35 079 743
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions and central banks	2 012 504	-	-	-	-	1 384 481	3 396 985
Customer deposits	12 979 221	2 547 840	546 429	724 552	99 042	8 319 805	25 216 889
Derivative financial instruments	-	-	-	-	-	166 565	166 565
Deferred income and accrued expense	-	-	-	-	-	216 681	216 681
Accruals for liabilities and payments	-	-	-	-	-	164 748	164 748
Other liabilities	-	-	-	-	-	202 205	202 205
Subordinated liabilities	93 187	-	-	-	-	276 242	369 429
Shareholders' equity	-	-	-	-	-	5 346 241	5 346 241
<i>Share capital</i>	-	-	-	-	-	7 611 285	7 611 285
<i>Reserve capital and other reserves</i>	-	-	-	-	-	545 024	545 024
<i>Accumulated deficit</i>	-	-	-	-	-	(3 346 911)	(3 346 911)
<i>Profit for the current year</i>	-	-	-	-	-	536 843	536 843
Off-balance sheet liabilities	-	-	-	-	-	2 524 076	2 524 076
Total liabilities and shareholders' equity	15 084 912	2 547 840	546 429	724 552	99 042	18 601 044	37 603 819
Balance sheet sensitivity to interest rate risk	9 336 283	(1 502 372)	611 767	(670 447)	(99 042)	(10 200 265)	
Balance sheet sensitivity to interest rate risk as of 31 December 2002	10 755 147	(2 999 546)	186 063	(169 127)	(726 699)	(8 308 505)	

Trading risk

The Bank focuses a lot of attention on the monitoring and analysis of trading risk. The Bank has adopted its Trading Portfolio Policy defines the structure of the Bank's trading portfolio and sets out the maximum volume of the position transacted with one issuer and limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy. The Internal Audit Department is charged with a continuing control function.

Operational risk

Operational risk is the risk of loss, which may stem from the shortcomings of the staff employees, damage of in-house hardware, contingencies, fire and other factors of this sort. To prevent such losses, the Bank has a number of in-house regulatory documents in place such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to oversee the implementation of the regulatory requirements set forth in the aforesaid intrabank documents.

4. INTEREST INCOME

	2003	2002
	LVL	LVL
Loans	1 202 898	1 202 243
Due from credit institutions	392 849	596 575
Investments in securities	54 282	53 733
Payment cards	7 246	4 739
	1 657 275	1 857 290

5. INTEREST EXPENSE

	2003	2002
	LVL	LVL
Deposits	644 051	980 476
Due to credit institutions	107 573	36 056
Subordinated liabilities	13 949	37 791
	765 573	1 054 323

6. INCOME FROM SECURITIES

	2003	2002
	LVL	LVL
Dividends on shares	4 607	1 493
	4 607	1 493

7. FEE AND COMMISSION INCOME

	2003	2002
	LVL	LVL
Servicing of settlements	651 995	538 593
Forex transactions	38 011	7 728
Payment cards	27 905	22 466
Cash operations	24 220	19 346
Letters of Credit	16 689	5 660
Financial consultations	12 313	-
Guarantees	4 451	880
Trust operations	3 966	803
Servicing of security accounts	2 482	4 808
Servicing of loans	970	970
	783 002	601 254

8. FEE AND COMMISSION EXPENSE

	2003	2002
	LVL	LVL
Services of correspondent banks	192 789	169 532
Security-based transactions	9 595	13 634
Payment cards	8 935	7 237
Services of mediators	6 674	-
Forex transactions	-	6 995
	217 993	197 398

9. GAIN/LOSS FROM TRADING IN FINANCIAL INSTRUMENTS

	2003	2002
	LVL	LVL
Profit from foreign exchange operations	929 228	386 465
(Loss) from revaluation of positions in foreign currency	(556 366)	(219 535)
Gain from revaluation of trading and other financial instruments	76 553	1 923
Gain/(loss) from trading in financial instruments	61 196	(52 682)
Gain from trading in and revaluation of precious metal	3 570	3
	514 181	116 174

10. OTHER OPERATING INCOME

	2003	2002
	LVL	LVL
Rent of premises	104 054	111 116
Penalties received	824	11
Other	44	372
	104 922	111 499

11. ADMINISTRATIVE EXPENSES

	2003	2002
	LVL	LVL
Remuneration to staff employees	458 155	299 513
Security	200 709	13 281
Professional services	186 395	164 561
Communication	158 411	152 732
Social insurance payments	113 940	80 656
Representation expenses	57 805	59 149
Unused vacation accruals (Note 28)	54 400	-
Stationary and miscellaneous	52 967	50 030
Renovation and maintenance of premises	51 274	50 968
Cars	44 785	39 389
Land and property taxes	32 794	6 410
Advertising	26 949	24 806
Business trips	25 432	38 620
Penalties paid	25 128	33 317
Repairs and maintenance of fixed assets	18 207	5 158
Remuneration to the Council and the Board	15 402	10 271
Rent of land	2 006	1 190
Other	92 568	123 782
	1 617 327	1 153 833

12. CORPORATE INCOME TAX

Reconciliation of corporate income tax paid
using an effective tax rate against the
actual tax expenses

	2003	2002
	Rate 19%	Rate 22%
	LVL	LVL
Pre-Tax Profit	667 844	309 565
Accrued hypothetical (notional) corporate income tax	126 890	69 515
<u>Tax effect of:</u>		
Increase of taxable income	141 443	86 285
Decrease in taxable income	(610 441)	(92 600)
Tax losses carried forward	342 108	(63 200)
Deferred tax liability for the year	131 001	-
Tax charge	131 001	-
	2003	2002
	Tax effect	Tax effect
	15%	19%
	LVL	LVL
Temporary differences in depreciation of fixed assets	(139 161)	(160 290)
Temporary differences in vacation accruals	8 160	-
Temporary differences in tax loss carried forward	-	282 137
Deferred tax (liabilities)/assets	(131 001)	121 847

The Bank is allowed to offset losses suffered by the Bank in the year 1999, until 2004.

13. TAXES AND SOCIAL INSURANCE PAYMENTS

	2003	2002
	LVL	LVL
Taxes paid		
Social tax	151 865	108 565
Personnel income tax	95 909	61 832
Tax on real estate	31 606	6 078
Value added tax	22 206	27 409
Corporate income tax from non-residents	1 517	1 095
Penalties paid	2	-
Total taxes paid	303 105	204 979

14. CASH AND BALANCES WITH THE CENTRAL BANK

	2003	2002
	LVL	LVL
Cash	348 215	488 956
Balance with the Bank of Latvia	796 086	739 165
	1 144 301	1 228 121

15. DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

	2003	2002
	LVL	LVL
Credit institutions incorporated in other countries	7 185 083	588 135
Credit institutions incorporated in the OECD countries	5 242 197	12 856 361
Credit institutions incorporated in the Republic of Latvia	1 007 642	155 530
	<u>13 434 922</u>	<u>13 600 026</u>
Specific provisions	(96)	(99)
	<u>13 434 826</u>	<u>13 599 927</u>

16. LOANS

(a) Loans by type

	2003	2002
	LVL	LVL
Commercial loans	6 824 723	4 068 831
Overdrafts	1 694 006	2 855 846
Industrial loans	1 393 634	971 415
Mortgage loans	858 008	1 350 331
Consumer loans	578 851	27 478
Financial leasing	378 148	335 785
Payment cards	41 552	38 003
Other	3 433 621	2 494 706
	<u>15 202 543</u>	<u>12 142 395</u>
Specific provisions	(2 197 257)	(435 037)
	<u>13 005 286</u>	<u>11 707 358</u>

(b) Loan profile by geographic locale

	2003	2002
	LVL	LVL
Latvian residents	9 103 243	7 373 947
OECD country residents	3 501 693	4 201 878
Other countries' residents	2 597 607	566 570
	<u>15 202 543</u>	<u>12 142 395</u>
Specific provisions	(2 197 257)	(435 037)
	<u>13 005 286</u>	<u>11 707 358</u>

(c) Loans by customer profile

	2003	2002
	LVL	LVL
Loans to private companies	12 894 156	10 761 196
Loans to private individuals	1 452 766	824 534
Loans to financial institutions	706 550	384 913
Loans to the Bank's top management and staff employees	149 071	169 124
Loans to state-owned companies and municipalities	-	2 628
	<u>15 202 543</u>	<u>12 142 395</u>
Specific provisions	(2 197 257)	(435 037)
	<u>13 005 286</u>	<u>11 707 358</u>

**JSC "BALTIC INTERNATIONAL BANK"
ANNUAL REPORT 2003**

(d) Loans by initial term profile	2003	2002
	LVL	LVL
Up to 1 month (including)	2 355 730	3 183 926
1 to 3 months	100	-
3 to 6 months	6 478	1 249
6 to 12 months	991 763	963 234
More than 1 year	<u>11 848 472</u>	<u>7 993 986</u>
	15 202 543	12 142 395
Specific provisions	<u>(2 197 257)</u>	<u>(435 037)</u>
	<u>13 005 286</u>	<u>11 707 358</u>

17. ANALYSIS OF CHANGES IN PROVISIONS

	Loans	Due from credit institutions	Other assets	Accrued income	Off- balance sheet liabilities	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Provisions as at 31 December 2002	435 037	99	8 828	8 072	-	452 036
Amounts written-off	(65 382)	(4)	-	-	-	(65 386)
Increase in specific provisions	2 067 119	-	2 182	16 437	462	2 086 200
Release from specific provisions	(52 380)	-	-	(203)	-	(52 583)
Difference due to fluctuations in foreign exchange rates	<u>(187 137)</u>	<u>1</u>	<u>(669)</u>	<u>(2 880)</u>	<u>(462)</u>	<u>(191 147)</u>
Provisions as at 31 December 2003	<u>2 197 257</u>	<u>96</u>	<u>10 341</u>	<u>21 426</u>	<u>-</u>	<u>2 229 120</u>

18. INVESTMENTS IN SECURITIES

a. Fixed-income debt securities and other fixed-income securities

	2003	2002
	LVL	LVL
Government treasury bills of the Republic of Latvia	196 179	96 444
OECD country government treasury bills	139 333	326 637
Bonds of other issuers and other debt securities	<u>863 505</u>	<u>453 102</u>
	<u>1 199 017</u>	<u>876 183</u>

b. Shares and other non-fixed income securities

	2003	2002
	LVL	LVL
Investments in shares listed on the Riga Stock Exchange	249 116	50 179
Shares of U.S. privately-held companies	79 008	217 711
Other investments	<u>8 609</u>	<u>2 550</u>
	<u>336 733</u>	<u>270 440</u>

c. Classification of overall investments in securities under International Financial Reporting Standard 39

	2003	2002
	LVL	LVL
Trading securities	1 236 430	944 246
Held-to-maturity securities	426 431	329 488
	1 662 861	1 273 734

19. GAIN FROM REVALUATION OF LONG-TERM FINANCIAL INVESTMENTS

	2003	2002
	LVL	LVL
Land and building at 2 Bruninieku Street	2 338 400	-
Land and building at 35 Skolas Street	56 600	-
Land and building at 6 Grecinieku Street	38 000	78 845
JSC Riga Stock Exchange shares	4 115	-
Equity shares in SIA Ribeksins Baltija B	(20 000)	(4 245)
	2 417 115	74 600

20. DERIVATIVE CONTRACTS

	Contract	Fair value	
	amount	Assets	Liabilities
	LVL	LVL	LVL
Foreign currency exchange <i>forward</i> transactions - claims	7 595 820	7 281	30 449
Foreign currency exchange <i>spot</i> transactions - liabilities	42 247 818	186 820	136 116
	49 843 638	194 101	166 565

21. INVESTMENTS IN ASSOCIATED COMPANIES

Company	Business profile	Equity share %	2003	2002
			Equity participation (LVL)	Equity participation (LVL)
JSC "Capital"	Trade	20,96	127 111	127 111
			127 111	127 111

In 2001 and 2002, JSC "Capital" made a profit but the investment was not revalued as it was not considered material in the context of the financial statements taken as a whole.

22. INTANGIBLE ASSETS

	Intangible assets LVL	Pre-payments for intangible assets LVL	TOTAL LVL
Historical cost			
As at 31 December 2002	193 447	31 224	224 671
Additions	2 195	102 398	104 593
Disposals	(470)	-	(470)
Reclassification	69 182	(69 182)	-
As at 31 December 2003	264 354	64 440	328 794
Depreciation			
As at 31 December 2002	(65 322)	-	(65 322)
Depreciation	(43 374)	-	(43 374)
Disposals	470	-	470
As at 31 December 2003	(108 226)	-	(108 226)
Net book value			
As at 31 December 2002	128 125	31 224	159 349
Net book value			
As at 31 December 2003	156 128	64 440	220 568

23. FIXED ASSETS AND INVESTMENT PROPERTY

	Buildings and land (in own use) LVL	Investment property	Cars LVL	Office outfit LVL	Pre- payments for fixed assets LVL	Total LVL
Historical cost						
As at 31 December 2002	536 494	965 000	102 682	665 890	18 712	2 288 778
Additions	72 469	-	955	21 154	749 729	844 307
Disposals	-	-	(23 945)	(25 976)	-	(49 921)
Reclassification	-	704 000	32 082	32 359	(768 441)	-
Revaluation*	-	2 433 000	-	-	-	2 433 000
As at 31 December 2003	608 963	4 102 000	111 774	693 427	-	5 516 164
Depreciation						
As at 31 December 2002	(28 056)	-	(27 300)	(219 634)	-	(274 990)
Depreciation	(5 179)	-	(23 493)	(106 702)	-	(135 374)
Disposals	-	-	8 456	25 976	-	34 432
As at 31 December 2003	(33 235)	-	(42 337)	(300 360)	-	(375 932)
Net book value						
As at 31 December 2002	508 438	965 000	75 382	446 256	18 712	2 013 788
Net book value						
As at 31 December 2003	575 728	4 102 000	69 437	393 067	-	5 140 232

*In 2003, the Bank's investment property comprising the buildings and the land was reappraised at fair market value in line with International Financial Reporting Standards: the buildings and the land located at Skolas Street 35 and Bruninieku Street 2, Riga, Latvia were reappraised on 27 August 2003, while the building and the land located at Grecinieku Street 6, Riga, Latvia were reappraised on 30 December 2003.

24. DEFERRED EXPENSES AND ACCRUED INCOME

	2003	2002
	LVL	LVL
Deferred expenses	110 588	145 898
Accrued interest on loans	54 286	99 434
Accrued interest on interbank loans	23 238	6 785
Accrued interest on securities	18 936	10 252
Other accrued income	10 076	5 843
Specific provisions	(21 427)	(8 072)
	<u>195 697</u>	<u>260 140</u>

25. OTHER ASSETS

	2003	2002
	LVL	LVL
Other pre-payments	38 126	873
Precious metals	32 293	29 767
Other accounts receivable	7 449	65 823
Funds placed in guarantee funds	7 361	8 056
Unidentified funds outflow from correspondent accounts	6 882	7 070
Property for sale	80	80
Tax overpayment	21	21
Specific provisions	(10 341)	(8 828)
	<u>81 871</u>	<u>102 862</u>

26. DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	2003	2002
	LVL	LVL
Credit institutions incorporated in the Republic of Latvia	379	-
The Bank of Latvia	-	206 000
Credit institutions incorporated in OECD countries	-	7
Credit institutions incorporated in other countries	3 396 606	3 245 548
	<u>3 396 985</u>	<u>3 451 555</u>

27. CUSTOMER DEPOSITS

	2003	2002
	LVL	LVL
Current account balances		
Private companies	13 086 561	8 359 647
Private individuals	965 046	583 952
State-owned companies	482 677	560 876
Municipalities	13 148	13 148
Public organizations	6 343	1 224
Financial institutions	4 904	754 154
	<u>14 558 679</u>	<u>10 273 001</u>

**JSC "BALTIC INTERNATIONAL BANK"
ANNUAL REPORT 2003**

Term deposits

Private companies	7 796 666	9 363 519
Private individuals	2 535 450	2 213 385
Financial institutions	326 094	570 095
	<u>10 658 210</u>	<u>12 146 999</u>
Total customer deposits	<u>25 216 889</u>	<u>22 420 000</u>

28. DEFERRED INCOME AND ACCRUED EXPENSES

	2003	2002
	LVL	LVL
Accrued interest payable	121 832	213 298
Unused vacation accrued expenses	54 400	-
Other accrued expense	40 077	36 142
Deferred income	372	102
	<u>216 681</u>	<u>249 542</u>

29. ACCRUALS FOR LIABILITIES AND PAYMENTS

	2003	2002
	LVL	LVL
Deferred taxes (Note 12)	131 001	-
Accruals for other payments	33 747	18 385
	<u>164 748</u>	<u>18 385</u>

30. OTHER LIABILITIES

	2003	2002
	LVL	LVL
Unidentified funds inflow to correspondent accounts	156 185	139 149
Other accounts payable	46 020	24 725
	<u>202 205</u>	<u>163 874</u>

31. SUBORDINATED LIABILITIES

Unlike ordinary deposits, subordinated deposits are seven-year fixed term and early withdrawal is only allowed in the event that the Bank goes bankrupt, after other creditors claims have been satisfied. In the year 2003, upon receipt of the permission from the Financial and Capital Market Commission, the Bank re-executed the most part of subordinated deposits to include them into the share capital and attracted no new subordinated deposits. As at 31 December 2003, the amount of subordinated liabilities totaled 369 429 lats.

Subordinated deposits representing over 10 per cent of the aggregate subordinated liabilities:

Depositor	Currency	Amount in currency	Amount in lats	Interest rate	The inception date of the agreement	Repayment date
JSC Uniparks	USD	94 068	50 891	0.00%	08/05/1998	08/05/2005
Belokoņ Holdings	USD	85 000	45 985	5.50%	19/04/2000	07/05/2006
Belokoņ Holdings	USD	50 000	27 050	0.00%	25/05/2000	30/09/2006
Belokoņ Holdings	USD	25 000	13 525	0.00%	02/01/2002	20/10/2008
Belokoņ Holdings	USD	50 000	27 050	0.00%	31/07/2002	08/05/2005
Tara Group LLC	USD	100 000	54 100	0.00%	06/05/1998	06/05/2005
Oristo Financial	USD	75 000	40 575	0.00%	28/04/1998	28/04/2005
Impex Land	USD	74 000	40 034	4.00%	04/05/1998	04/05/2005

32. SHAREHOLDERS' EQUITY

	2003		2002	
	Quantity	LVL	Quantity	LVL
Ordinary voting shares	1 522 257	7 611 285	1 174 855	5 874 275
Ordinary non-voting shares	-	-	7	35
	1 522 257	7 611 285	1 174 862	5 874 310

In the year 2003, the Bank increased its paid-in share capital. The Bank's authorized share capital is LVL 7 611 285 (seven million six hundred eleven thousand two hundred eighty five lats). Fully paid share capital is LVL 7 611 285 (seven million six hundred eleven thousand two hundred eighty five lats), represented by the cumulative number of shares equating 1 522 257 (one million five hundred twenty two thousand two hundred fifty seven).

These are registered ordinary dematerialized shares, each having a par value of LVL 5.00 (five lats). All of the Bank's shares have voting power.

Of the Bank's 102 shareholders, 34 are legal entities and 68 are private individuals.

Reserve capital totaling 545 024 lats is formed from the contributions made by the Bank's shareholders.

Listed below are the shareholders having direct control of more than 10% of the shares in the shareholders' equity:

Valeri Belokon	37,2053 %
Viacheslav Kramnoy	27,9721 %
Vilori Belokon	12,1657 %

33. CASH AND CASH EQUIVALENTS

a. In accordance with the Financial and Capital Market Commission's requirements

	2003	2002
	LVL	LVL
Cash	348 215	488 956
Balance with the Bank of Latvia	796 086	739 165
Due from other credit institutions with up to 3 months remaining maturity	13 434 922	13 588 146
Due to other credit institutions with up to 3 months remaining maturity	(2 682 866)	(3 245 555)
Specific provisions	(96)	(99)
	11 896 261	11 570 613

b. In accordance with International Financial Reporting Standards

	2003	2002
	LVL	LVL
Cash	348 215	488 956
Balance with the Bank of Latvia	796 086	739 165
Due from other credit institutions with up to 3 months remaining maturity	13 434 922	13 588 146
Specific provisions	(96)	(99)
	14 579 127	14 816 168

34. RELATED PARTY TRANSACTIONS

	Loans LVL	Cumulative number of risk transactions (excluding provisions) LVL	Risk transactions versus equity (excluding provisions) %	Deposits LVL
Council and Board members	3 272	34 279	0.65%	2 021
Other top executives	38 172	59 154	1.13%	5 715
Bank-related companies	400 293	380 182	7.26%	667 582
	<u>441 737</u>	<u>473 615</u>	<u>9.04%</u>	<u>675 318</u>

35. ASSETS AND LIABILITIES UNDER TRUST MANAGEMENT

The Bank possesses a license issued by the Financial and Capital Market Commission to act as an intermediary in security - based transactions and to maintain security accounts. Therefore customer asset management or trust operations are among the Bank's core activities. The Bank seals trust agreements with private individuals and legal entities, and with the residents and non - residents of the Republic of Latvia. The Bank undertakes to invest customer funds in those financial instruments, which by the trust administrator's view will prove to be the most profitable. As at 31 December 2003, the Bank's management assets consisted LVL 4 052 335. 100 % of this balance was in loans. As at December 2002 the Bank's management assets consisted LVL 1 067 113.

36. OFF-BALANCE SHEET ITEMS

	2003 LVL	2002 LVL
Sureties and guarantees	1 219 335	222 627
Commitments to customers	1 304 741	1 142 902
Letters of Credit	28 766	5 881
Liabilities for opening credit lines	968 178	894 588
Liabilities for credit cards	306 993	241 576
Other liabilities	804	857
	<u>2 524 076</u>	<u>1 365 529</u>

37. INFORMATION ON THE BANK'S STAFF

In 2003, the Bank's average staff complement grew by 2 employees to reach the figure 126 (as compared to 124 in 2002). Remuneration to the Bank's Council and Board members amounted to:

	2003 LVL	2002 LVL
Council members	6 168	5 305
Board members	49 057	26 141
	<u>55 225</u>	<u>31 446</u>

38. CAPITAL ADEQUACY CALCULATION as at December 31, 2003

The Bank's capital adequacy ratio reflects the capital level required for hedging against credit risk and market risk which the Bank's assets and off - balance sheet liabilities are exposed to. Therefore, to comply with the Financial and Capital Market Commission's regulatory requirements, the capital adequacy ratio may not be less than 10 per cent of the Bank's equity.

	In line with the Financial and Capital Market Commission's regulatory requirements			Basle agreement methodology		
	Summa LVL	Risk degree %	Risk- weighted value LVL	Amount LVL	Risk degree %	Risk- weighted value LVL
Assets						
Cash and balances with the Central Bank	1 144 301	0%	-	1 144 301	0%	-
Due from credit institutions and central banks						
<i>Credit institutions incorporated in OECD countries</i>	5 246 844	20%	1 049 369	5 246 844	20%	1 049 369
<i>Demand claims on LR credit institutions</i>	1 007 755	20%	201 551	1 007 755	20%	201 551
<i>Credit institutions incorporated in non-OECD countries</i>	7 203 465	100%	7 203 465	7 203 465	20%	1 440 693
Securities and investments						
<i>Due from the LR central government</i>	199 181	0%	-	199 181	0%	-
<i>Securities issued by credit institutions incorporated in the LR</i>	106 328	50%	53 164	106 328	20%	21 266
<i>Due from OECD country central governments</i>	140 463	0%	-	140 463	0%	-
<i>Other fixed-income securities</i>	771 980	100%	771 980	771 980	100%	771 980
<i>Shares and other non-fixed income securities</i>	336 734	100%	336 734	336 734	100%	336 734
Investments in associated companies	127 111	100%	127 111	127 111	100%	127 111
Customer loans, net value						
<i>Claims secured by fixed-term deposits</i>	4 334 444	0%	-	4 334 444	0%	-
<i>Claims secured by mortgage on real estate and registered with the Land Register</i>	108 283	50%	54 142	108 283	50%	54 142
<i>Claims on borrowers which are not credit institutions, except for lower- risk- degree claims</i>	8 595 418	100%	8 595 418	8 595 418	100%	8 595 418
Prepaid expenses and accrued income	120 664	50%	60 332	120 664	100%	120 664
Intangible assets	220 568	-	-	220 568	100%	220 568
Fixed assets and investment property	5 140 232	100%	5 140 232	5 140 232	100%	5 140 232
Other assets	81 871	100%	81 871	81 871	100%	81 871
TOTAL			23 675 369			18 161 599
Off-balance sheet items						
Sureties and guarantees						
<i>Secured by deposits</i>	764 760	0%	-	764 760	0%	-
<i>Other</i>	454 575	100%	454 575	454 575	100%	454 575
Liabilities for loan issue						
<i>Secured by deposits</i>	143 522	0%	-	143 522	0%	-
<i>Secured by mortgage on real estate and registered with the Land Register</i>	1 500	50%	750	1 500	50%	750
<i>Other</i>	1 130 149	100%	1 130 149	1 130 149	100%	1 130 149
Documentary letters of credit	28 766	0%	-	28 766	0%	-
Other	804	100%	804	804	100%	804
TOTAL	2 524 076		1 586 278	2 524 076		1 586 278
TOTAL risk-weighted value of assets and off-balance sheet liabilities			25 261 647			19 747 877

**JSC "BALTIC INTERNATIONAL BANK"
ANNUAL REPORT 2003**

Paid-in share capital				7 611 285		7 611 285
Reserve capital and other reserves				545 024		545 024
Accumulated deficit				(3 346 911)		(3 346 911)
Profit for the current year				536 843		536 843
Intangible assets				(220 568)		
Subordinated liabilities with remaining maturity						
<i>1 to 2 years</i>	245 701	20%	49 140	245 701	20%	49 140
<i>2 to 3 years</i>	73 035	40%	29 214	73 035	40%	29 214
<i>3 to 4 years</i>	30 000	60%	18 000	30 000	60%	18 000
<i>4 to 5 years</i>	13 525	80%	10 820	13 525	80%	10 820
<i>more than 5 years</i>	7 168	100%	7 168	7 168	100%	7 168
TOTAL CAPITAL	369 429		5 240 015	369 429		5 460 583
Summary of capital requirements						
The Bank's portfolio credit risk capital requirement				2 526 165		1 579 830
Forex risk capital requirement				76 399		61 119
CAPITAL ADEQUACY RATIO (%)				20.13		26.62
 CAPITAL ADEQUACY RATIO						
as at December 31, 2002 (%)				23.34		24.88