

Rietumu Bank

**Independent Auditors' Report and
Financial Statements
For the years ended 31 December 1997 and 1996**

**RIETUMU BANK
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INDEPENDENT AUDITORS' REPORT

To the shareholders of Rietumu Bank:

We have audited the accompanying balance sheets of Rietumu Bank ("the Bank") as of 31 December 1997 and 1996, and the related statements of profit and loss, shareholders' investment 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. 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 1997 and 1996, and the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.

Deloitte & Touche

Riga, Latvia

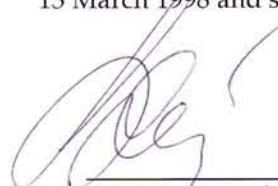
13 March 1998

RIETUMU BANK
BALANCE SHEETS
AS OF 31 DECEMBER 1997 AND 1996

	Notes	1997 LVL'000	1996 LVL'000
ASSETS			
Cash and balances due from the Bank of Latvia	2	8,600	11,009
Securities eligible for refinancing by the Bank of Latvia	3	596	3,072
Demand deposits due from other banks	4	35,146	35,541
Other deposits due from other banks	5	7,231	-
Loans and advances to customers	6,7	29,652	7,491
Government bonds and other fixed income securities	8	31,585	2,878
Bonds and other fixed income debts securities of other issuers	9	-	6,545
Equity shares and other non-fixed income investments	10	1,008	443
Investments in associates	11	7	31
Investments in business ventures	12	102	14
Fixed assets, net	13	1,878	1,130
Other assets	14	1,514	264
Accrued income and prepayments	15	514	439
Total assets		117,833	68,857
Managed assets	16	66,237	19,366
Total assets and managed assets		184,070	88,223
LIABILITIES			
Demand deposits due to other banks	17	3,069	1,738
Other deposits due to other banks	18	590	-
Demand customer accounts	19	86,408	57,269
Other customer accounts	20	9,534	185
Other liabilities		162	3
Accounts payable and accrued liabilities	21	185	115
Provisions for liabilities and charges	22	297	421
Total liabilities		100,245	59,731
SHAREHOLDERS' INVESTMENT			
Share capital	23	9,111	4,535
Legal reserve		15	15
Revaluation reserve	13	163	-
Retained earnings		8,299	4,576
Total shareholders' investment		17,588	9,126
Total liabilities and shareholders' investment		117,833	68,857
Managed liabilities	16	66,237	19,366
Total liabilities, shareholders' investment and managed liabilities		184,070	88,223
OFF BALANCE SHEET LIABILITIES	24	2,152	923

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

The financial statements were approved by the Management Board and Supervisory Council on 13 March 1998 and signed on its behalf by:



 Chairman of the Supervisory Council




 Chairman of the Management Board


RIETUMU BANK
STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 1997 AND 1996

	Notes	1997 LVL'000	1996 LVL'000
Interest income	25	6,890	3,369
Interest expense	26	<u>1,059</u>	<u>157</u>
NET INTEREST INCOME		5,831	3,212
Fees and commission income	27	4,499	2,539
Fees and commission expense		(289)	(402)
Foreign exchange profit, net	28	2,120	2,501
Brokerage, net		1,157	692
Other operating income	29	<u>261</u>	<u>107</u>
TOTAL INCOME		13,579	8,649
Salaries and related social expenses	30	1,629	1,095
Depreciation	13	339	157
Other administrative expenses	31	<u>2,104</u>	<u>1,779</u>
NET INCOME BEFORE PROVISIONS FOR LOAN LOSSES AND TAXATION		9,507	5,618
Provisions for loan losses	7	<u>401</u>	<u>685</u>
PROFIT BEFORE TAXATION		9,106	4,933
Taxation	32	<u>807</u>	<u>357</u>
NET PROFIT		<u>8,299</u>	<u>4,576</u>

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 Chairman of the Supervisory Council


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RIETUMU BANK
STATEMENTS OF SHAREHOLDERS' INVESTMENT
FOR THE YEARS ENDED 31 DECEMBER 1997 AND 1996

	Share Capital	Legal Reserve	Revalua- tion Reserve	Retained Earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
At 31 December 1995	2,500	15	-	2,035	4,550
Share dividend (Note 23)	2,035	-	-	(2,035)	-
Net profit	-	-	-	4,576	4,576
At 31 December 1996	4,535	15	-	4,576	9,126
Share dividend (Note 23)	4,576	-	-	(4,576)	-
Revaluation of fixed assets (Note 13)	-	-	163	-	163
Net profit	-	-	-	8,299	8,299
As at 31 December 1997	<u>9,111</u>	<u>15</u>	<u>163</u>	<u>8,299</u>	<u>17,588</u>

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

RIETUMU BANK
CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 1997 AND 1996

	1997 LVL'000	1996 LVL'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	9,106	4,933
Depreciation	339	157
Provisions	401	685
(Decrease) increase in provisions for liabilities and charges	(124)	370
Loss from disposal of fixed assets	9	3
Increase in accounts payable and accrued liabilities	70	44
Increase in accrued income and prepayments	(75)	(401)
Increase in other assets	(1,250)	(43)
Increase (decrease) in other liabilities	159	(16)
Operating profit before changes in operating assets	8,635	5,732
Decrease (increase) in securities eligible for refinancing by the Bank of Latvia	2,476	(3,063)
Increase in government bonds and other fixed income securities	(28,707)	(2,865)
Decrease (increase) in bonds and other fixed income debt securities of other issuers	6,545	(6,545)
Increase in equity shares and other non-fixed income investments	(565)	(267)
Increase (decrease) in other deposits due from other banks	(7,231)	54
Increase in loans and advances to customers	(22,562)	(7,362)
Increase (decrease) in demand deposits due from other banks	1,331	(139)
Increase in other deposits due to other banks	590	-
Increase in demand customer accounts	29,139	18,599
Increase in other customer accounts	9,349	80
Net cash and cash equivalents (used in) provided by operating activities before taxation	(1,000)	4,224
Taxation	(807)	(357)
Net cash and cash equivalents (used in) provided by operating activities	(1,807)	3,867
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Purchase of fixed assets	(933)	(343)
Decrease in investments in associates	24	134
(Increase) in investments in business ventures	(88)	(14)
Net cash and cash equivalents used in investment activities	(997)	(223)
Net (decrease) increase in cash and cash equivalents	(2,804)	3,644
Cash and cash equivalents at beginning of year	46,550	42,906
CASH AND CASH EQUIVALENTS AT END OF YEAR	43,746	46,550
Cash and cash equivalents consists of:		
Cash and balances due from the Bank of Latvia	8,600	11,009
Demand deposits due from other banks	35,146	35,541

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