

RIETUMU Banka AS

Financial Statements

for the year ended 31 December 1994

Statement of Income

		LVL 000s	LVL 000s
	Notes	1994	Unaudited 1993
Interest income from credit institutions	5	271	91
Interest income on loans	5	458	267
Interest expenses from credit institutions	5	-454	-280
Interest expenses on customer accounts	5	-3	-4
Net interest income		272	74
Income from fees and commissions		1350	1192
Expenses for paid fees and commission		-5	0
Other operating income		30	3
Other operating expenses		-263	-970
Net operating income		1384	299
Charge to loan loss provision	9	-271	-154
Net operating income after provisions		1113	145
Foreign exchange gain	6	478	254
Dividends from shares and participations		16	0
Income after financial items		1607	399
Salary and related social expenses	7	-208	-102
Fixed assets depreciation	17	-91	-7
Other administration expenses	8	-664	0
Contribution to share capital	24	-749	0
Total personnel and other administrative expenses		-1712	-109
Income/(Loss) before taxes		-105	290
Taxes	10	-1	-23
Net profit / (loss)		-106	267

Introduction

Banking clients have always expected outstanding personal service. Today they find it with us in RIETUMU BANKA.

We believe that banking is more about people than numbers. It is about the shared values and common goals that forge strong bonds between the banker and the client. It is also about building for the future, keeping assets secure for generations to come.

We share a philosophy that emphasises lasting relationships and mutual trust. These values were once the foundation of banking. RIETUMU BANKA firmly believes in these values and always will.

The past two years were of crucial importance for obtaining and strengthening the position of RIETUMU BANKA amongst Latvian financial institutions.

RIETUMU BANKA was founded on May 13, 1992. The Bank started its operations on September 23 the same year. The Bank was established as an American-Latvian joint stock venture. The shareholders are American and Latvian companies. The bank is authorized to act in all fields of banking activity. The Bank's license enables it to perform domestic and international transactions.

The registered statutory capital is LVL 2.500.000, which is approximately USD 4.562.000, 60 percent of the share capital belongs to American shareholders and 40 percent to Latvian shareholders.

The staff at the RIETUMU BANKA headquarters, situated in Riga, are frequently updated on financial markets information from both the U.S and locally. The Bank has expertise in both local business and the local political environment. The Bank cooperates with other banks in most of the CIS countries. Being residents of the CIS countries, the correspondent banks frequently provide Rietumu Banka with information about the overall economic situation in the CIS countries and market and financial analysis for soft currency transactions.

This provides the opportunity for the Bank to respond to the needs of their clients and the service provided is based on comprehensive experience. Thus, whatever challenge may face the Bank's clients in their business, RIETUMU BANKA can help them to develop the most advantageous solution for all types of transactions, taking changing market conditions into account. The Bank is able to offer a wide range of financial services, structured in accordance with the client's requirements.

The Bank's Products and Services

The structure of RIETUMU BANKA services and products is determined by the Bank's marketing strategy. It is related to the needs of the medium size and large corporate clients, from all sectors of the Latvian economy. RIETUMU BANKA offers a full range of banking services and can individualise an offer in line with the client's specific requirements. The scope of services covers the handling of payments, account maintenance, loans, guarantees and other financial products.

On December 31, 1994 the total number of customers was 5.913; 3.934 of which were private and 1.979 of which were corporate customers.

The Bank's main products and services included:

- customer accounts and documentary operations (L/C, collections, transfers)
- customer accounts and services

- foreign exchange operations
- trade structuring and finance
- corporate and project advisory services
- real estate brokerage services

Loan Operations

During 1994 Rietumu Banka granted 255 loans, both short and medium term. Most of the 255 loans were short term loans with an average interest rate of 30 %.

Guarantees

Rietumu Banka extends guarantees in hard currency and in Lats, the local currency of Latvia. There is a high demand among the Bank's customers for customs clearance guarantees and international trade guarantees.

Documentary Operations

Among the products offered to exporters and importers, the facilities for beneficiaries of export letters of credit played a significant role in 1994.

Most of these facilities allow exporters to be granted loans secured by proceeds from letters of credit advised or confirmed by RIETUMU BANKA, which also enables the exporters to obtain alternative financing from the domestic market.

During 1994 RIETUMU BANKA settled 46 letters of credit, of which 29 were export letters of credit amounting to USD 37.849.994 and 17 were import letters of credit amounting to USD 1.360.360.

Fonns of Deposits

The Bank offers term deposits and current accounts to corporate and individual clients. The interest rates offered are similar to those in leading American banks.

Correspondent Banking Activities

Since its establishment the Bank has been maintaining a policy of initiating correspondent relations with foreign financial institutions. One of the goals, which has been achieved, was to enable the execution of our customers' orders in every corner of the world. Correspondent relations were established with 6 leading western banks and approximately 50 CIS located banks. This is the result of Management's belief that the need for opening new accounts must follow the development of our customers' business.

In 1994 our total correspondent banking transaction turn over was equal to USD 614 million which was comprised of:

USD	375 million
DEM	38 million
RUR	109 million
KRB	62 million
Others	LVL 30 million

Investment activities

The Bank's Investment Division, which offers corporate and project advisory services, was established in June 1993 to take advantage of the new opportunities arising from the changes in the economic policy of the former Soviet Union. Since its inception, the Investment Division has successfully completed a large number of projects, and has also advised a wide range of Western and CIS clients.

The goals and objectives of organizing and developing the Investment Division are:

- to control a significant segment of the Latvian investment market in the near future;
- to reach the western level of stability and safety in the emerging Eastern European market;
- to create effective mechanisms and instruments for western investments in the region's economy, including the Baltic States, Russia and the Ukraine.

In response to the changing market place and the requirements of its clients, the Investment Division is now focusing on providing the following services:

- **Financial Advisory:** This relates to providing general advisory services to clients in respect of projects they are undertaking. Examples include purchase of so as to maximise the potential return and minimise the perceived risks, advice on the restructuring of organizations so as to attract external investors.

Financial Engineering. Structuring, securitising and syndication, as necessary, of project financing.

The Investment Division can assist in.

- Structuring projects in order to make them attractive to potential partners and investors;
- Selection and introduction of potential partners to a project, including potential suppliers of equipment, operators and buyers of finished products;
- The identification and introduction of potential providers of finance, including Government credit agencies, commercial banks, multi-lateral lending agencies and private investors;
- The creation of the optimal legal and commercial structure for a project;
- Preparation and negotiation of all required commercial and loan documentation.

Donations

During the year the Bank made charitable contributions of LVL 13.951 *Staff*

At the end of 1994 the Bank employed 150 personnel.

The present structure of employment in the Bank is suited to the needs and requirements of a modern bank. The Bank employs young and educated staff, whose qualifications provide for quality professional services to our customers.

Employee Participation

The Bank encourages the involvement of its employees in matters likely to affect their interest through a continual process of communication and consultation with Management.

Auditors

At the annual General Meeting a resolution was proposed to require an external audit of the Bank. To this end the bank has appointed the international audit firm of Arthur Andersen to perform the audit for the 1994 financial statements.

Rietumu Banka Notes to the Financial Statements 31 December 1994

NOTE 1 BACKGROUND AND INDUSTRY ENVIRONMENT

(Figures in parenthesis represent prior year figures)

The population of Latvia is approximately 2,5 million. At 31 December 1994, there were approximately 55 banks in Latvia, including several state-owned banks. The banking industry in the country is very competitive. Despite this competition, Rietumu Banka was at year end the twelfth largest bank in Latvia in terms of total assets.

Rietumu Banka (the Bank) was founded on 13 May, 1992 and operations commenced on 23 September 1992. The Bank was established as an American-Latvian jointstock venture. Its main office and one branch are located in Riga, Latvia. Rietumu Banka's main activities include foreign exchange trades and transfers of mainly soft currencies, document transfer services and letters of credit, credit cards, checking accounts, guarantees, correspondent banking activities and investment services. At 31 December 1994, the bank had 150 (65) employees, approximately 77 (191) loan customers and 19 (75) deposit customers. The shareholders of the Bank are V.I.P. International Trading (39,1%) L.I.C. Operating Corporation (20,0%), Amstar (17,5%), Maritime Investments (22,5%), Employees (0,8%) and the Board of Directors (0,1 %).

During 1994, the Latvian economy continued to undergo substantial development from the formerly centrally planned economy to a free market economy. The Lat, the Latvian monetary unit, continues to float freely against most other currencies, trading at LVL 0,548 (0,595) to 1 USD at 31 December 1994. The rate of exchange has remained stable or strengthened against many Western countries since its introduction. The rate of inflation in Latvia has been relatively stable at an average rate of 2,4% (2,7%) per month 1994.

Interest rates in Latvia are relatively high, although these have declined since 1993. Rietumu Banka does not hold deposits as a significant part of its operations and therefore offers a relatively low interest rate on current accounts and deposits. At 31 December 1994, the Bank accepted deposits from the general public (generally for terms less than one year) at interest rates of approximately 1-3%. The stated interest rates on the Bank's outstanding loans at 31 December 1994, (excluding G-24 program loans (see Note 13)), ranged from 0% to 85% for both hard currency loans and Lat loans. The net interest margin on the Bank's loans approximated 37% at year-end.

A great degree of uncertainty exists about the appropriate level of provisions for loan losses, due primarily to a general absence of reliable information about borrowers and the uncertainty of collateral values and collectibility. Currently, Latvian companies outside the banking sector frequently do not prepare financial statements. When financial statements are available, they generally are less reliable, not audited and not in compliance with accounting standards that are typical in Western countries or conform to International Accounting Standards (IAS). Accordingly, it is rarely possible to rely on financial statement analysis to assess a borrower's ability to repay loans. The local practices for legal collection of collateral are not well developed so that the ability to rely on collateral for repayment of defaulted loans is lower.

During 1994 competition in the banking sector continued to increase and added additional risk to the potential for financial instability, and in some instances failure, of numerous Latvian banks. The number of banking institutions trading in the interbank market also increased, further linking the dependency between many of the country's banks. Central bank regulations have adopted many internationally accepted banking principles which are likely to increase the possibility for

noncompliance due to the relatively poor financial standing of a number of Latvian financial institutions.

In the first quarter of 1995, there have been additional concerns relating to the stability of the banking sector following the arrest of key management at a Latvian banking institution calling to question related party lending practices by certain institutions in the country.

These factors contribute to an increased risk that several banks may fail during the coming year and put additional strain on other Latvian banks due to their interdependency in the interbank market. Accordingly, the systemic risk associated with the Latvian banking system must be considered when evaluating the financial position of a bank.

Bank of Latvia, which is the bank regulator in the country, requires a minimum capital level of 10% of risk weighted assets, based on financial statements prepared under Latvian accounting standards. As further discussed in Note 26, the Bank reported a capital ratio at 31 December 1994 which exceeded the minimum requirements mandated by the Bank of Latvia and the level recommended by the Basle Agreement of 8%.

NOTE 2 BASIS OF PRESENTATION

The accompanying financial statements are presented in the national currency of Latvia, the Lat (LVL). The financial statements are presented in accordance with International Accounting Standards (IAS).

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The financial statements have been prepared in accordance with IAS.

b) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated to the equivalent Lat rate of exchange prevailing at year end. Gains and losses on translation are credited or charged to foreign exchange prevailing at year end. Due to local accounting practices it is not practical to distinguish between gains and losses on trading activities and gains and losses on translation of foreign currency assets and liabilities.

c) Income Recognition

Interest income is recognised on an accruals basis. No interest income is recognised on non-performing loans or other loans in which interest is unlikely to be collected. Under IAS, any interest income that has been previously recognised is reversed at the time the related loan is placed on non-performing status. Commissions and other income are credited to income at the time of the related transactions.

The Bank of Latvia issued a new regulation as of 30 December 1994 requiring all Latvian banks to cease recognition of interest revenue on loans which are "non-standard" in nature. A loan is considered to be "standard" when:

- 1) the borrower is financially stable and the credit is sufficiently secured
- 2) repayment of the loan and interest is in accordance with the agreement

3) the loan is in accordance with the credit concentration risk standards set forth by the Bank of Latvia

This regulation is generally more conservative than IAS requirements as it may be interpreted that interest should not be accrued from the first day of non-payment, rather than recording interest reversals after 60 or 90 days late payments, as is the policy in a number of Western countries.

The Bank was not audited in accordance with IAS last year. The policy of reversal of interest after 90 days has elapsed since the contractual payment date is the result of Management's decision to move to non-accrual status as a part of the Bank's systematic loan quality reviews. For the purpose of local Bank of Latvia requirements, Note 4 presents the amount of interest which would need to be reversed and the corresponding affect on the year's income had these IAS financial statements been prepared for domestic Latvian purposes in accordance with the Bank of Latvia's interest recognition regulation (immediate reversal).

d) Taxation

Income tax is applied at the rate of 45% on all income generated by banks for the 1994 tax year. The Latvian government recently decided to reduce this rate to 25% effective 1 April 1995.

To promote foreign investment in Latvia, the tax authorities grant foreign majority owned companies a three year tax holiday.

Accrued taxes will arise from temporary, differences in the carrying value of certain items between the financial statements and the tax return.

e) Impact of Inflation

IAS requires the restatement of financial statements in terms of current monetary units if highly-inflationary conditions exist in an economy. IAS sets fourth various criteria for this condition, one of which is a cumulative inflation index of 100 percent or more over the preceding three years. The inflation rate based on the Latvian consumer price index was approximately 1000%, 32% and 26% for 1992, 1993 and 1994, respectively.

Although the three year rate has exceeded 100%, other criteria suggested under IAS as indicating highly inflationary conditions do not apply. The rate of inflation slowed considerably in the latter part of 1993 and has remained marginal throughout 1994. Also, a significant part of the Bank's assets and liabilities are denominated in hard currencies, primarily the USD, and the LVL/USD exchange rate has remained stable during 1994. Accordingly, the financial statements are presented in Lats without giving effect to inflation.

f) Fixed Assets

In the balance sheet fixed assets are recorded at cost less accumulated depreciation. If the fair value of a fixed asset is lower than its carrying amount, due to circumstances not considered to be temporary, the fixed asset is written down to its fair market value.

Depreciation is calculated using the straight-line method of depreciation based on the estimated useful life of the asset.

g) Maturity of Assets and Liabilities

The maturity of the loan portfolio is presented in Note 13 and shows the remaining period from the balance sheet date to the contractual maturity. Long term credits and overdraft facilities are generally

not available in Latvia except under programs established by Western development institutions. However, many short term credits are granted with the expectation of renewing the loan at maturity. Accordingly, the effective maturity of the loan portfolio will probably be longer than indicated by a classification based on contractual terms.

h) Provisions for Losses on Loans and Guarantees

At 31 December 1994, loans represent the unpaid principal balance of loans less provisions for loan losses as presented in Note 9.

Non-performing loans are defined as loans in which contractually due interest or principal is 90 days or more overdue, or Management otherwise believes the contractual interest or principal due will not be collected.

The Bank grants commercial and consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the debtor's ability to repay their loans. Management and the Directors have considered the risk in determining the balance of provisions for possible loan losses. Provisions for loan losses at each balance sheet date are established in accordance with IAS and represent the estimated amounts of probable losses that have been incurred at the balance sheet date. When a loan loss has been classified as non-performing, a provision for loan loss is established for that specific loan for that amount of the outstanding balance, which is deemed uncollectable. The value of collateral held in connection with loans is based on the estimated realisable value of the asset and is taken into account when estimating the required provision.

The provision for loan losses is composed of estimated figures for the following:

- I. specific provision for loans identified as non-performing
- II. specific provision for probable losses on guarantees
- III. specific provision for probable losses on credits identified as high risk
- IV. general provision for the Bank's total exposure to:

- a) identified loan concentration risk
- b) each customer and their general financial position
- c) collateral values
- d) possible measures implemented to improve troubled customers' financial position
- e) general market or operating events that have or have yet to occur, prior or subsequent to the balance sheet date, for which a specific provision is not yet quantifiable.

The level of the provisions is based on estimates considering known relevant factors affecting loan collectibility and collateral values. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known. Due to an inherent lack of reliable information about the customer's financial position, the estimate of probable losses is uncertain. Nevertheless, Management and the directors have made their best estimates of losses and believe those loss estimates presented in the financial statements are reasonable in light of available information.

i) Purchase accounting

The cost of acquisition has been allocated to the net identifiable assets acquired. Intangible assets are amortised on a straight line basis over their economic lives.

j) Participations in other companies

Investments with minority interest are accounted for under the Equity Method. This method is appropriate as the Bank's investment interests enables the Bank to influence but not ultimately control the operating or financial decisions of these companies. Under this method the Bank includes the original investment in these companies as an other long term asset and includes in its income statement its share of the post acquisition earnings or losses of the investment and adjusted for dividend income received.

k) Consolidation of subsidiaries

Consolidation of subsidiaries is performed if the Bank owns more than one half of the voting power of an enterprise. Consolidation is also performed when the parent company has the power to govern the financial and operating activities of the enterprise and may also participate in the management of daily operations. This is true even though the Bank may not have the majority of shares in a company but have the controlling interest. When consolidation is performed, intragroup balances, intragroup transactions and resulting unrealised profits should be eliminated in full. Unrcalised losses resulting from intragroup transactions should also be eliminated unless the cost cannot be recovered.

l) Investments in shares and securities

Speculative short term investments in securities are valued and recorded at market value. The profit/ (loss) resulting from the mark-to-market valuation is charged to the profit and loss statement. Long term investments are carried at cost. If there is a decline, other than temporary, in the value of the long term investment the carrying amount is reduced to recognize this decline.

NOTE 4 REVERSAL OF INTEREST ON NON-PERFORMING LOANS

Interest has been reversed on all non-performing loans where payment is outstanding more than 90 days. If the financial statements had been prepared in accordance with the Bank of Latvia's new regulation, requiring all Latvian banks to cease recognition of interest revenue on loans which are "non-standard" in nature (Note 3 (c) *Incom recognition*), an additional LVL 32 thousand would need to be reversed on the loan portfolio at year end. This would reduce the net income correspondingly for the period ending 31 December 1994.

Rietumu Banka Notes to the Financial Statements 31 December 1994**NOTE 5 INTEREST INCOME AND EXPENSES**

During the year no interest expense arose on issued bonds, other fixed income securities or subordinated capital.

NOTE 6 REALISED FOREIGN EXCHANGE GAINS AND LOSSES FROM FOREIGN EXCHANGE AND SECURITIES TRANSACTIONS

Foreign exchange gain	LVL 000s Amount
Realised foreign exchange gain from foreign exchange transactions	427
Unrealised foreign exchange gain from foreign exchange transactions	21
Realised foreign exchange gain from securities transactions	30
Foreign exchange gain	478

NOTE 7 SALARY AND RELATED SOCIAL EXPENSES

Salary and related social expenses includes compensation of employees and related social security and other benefits costs. The Bank *had* an average number of 150 (65) employees during the year. The President of the Bank does not receive any remuneration in respect of his employment.

Salary and related social expenses	LVL 000s
Salaries to the Board of Directors	19
Salaries	131
Social security/Insurance fees	58
Total	208

There are no non-deductible expenses included in salary and related social expenses.

NOTE 8 OTHER ADMINISTRATION EXPENSES

Other administration expenses is composed of the following items:

Other Expenses	LVL 000s
Consultancy, professional and legal services	140
Paper	111
Communication	93
Marketing and promotion	59
Travel	27
Security	26
Cash and collection	19
Electricity, water and heating	15
Branch development	13
Building, materials, maintenance	6
Transportation	6
Other Administration	5
Repair of office equipment	3
Training	3
Diverse	138
Total	664

Included in above other administration expenses are non-deductible expenses of LVL 315 thousand, of which LVL 140 thousand are consultancy expenses and the rest relating to legal and research expenses for future projects.

NOTE 9 PROVISION FOR LOAN LOSSES

The following table shows a reconciliation of current year loan loss provision to the prior year provision balance.

Amounts in LVL 000s	Subtotal	Total
Provision for loan losses as of 31 December 1993	0	
Reversal of provision due to recovery or removal during 1994	0	0
Provision for loan loss charged to income statement for 1994		250
Provision for loan losses as of 31 December 1994		250

The table below shows the division of the loan loss provision between private and corporate customers (included in customer and transit loans) and banks. The general reserve represents 5% of the outstanding loan balances for which specific loan loss provisions have not been established.

Amounts in LVL 000s	Customers	Transit loans	Banks
Gross outstanding loans	2428	208	0
Specific loan provision	-169	0	0
General provision	-71	-10	0
Net loan balance outstanding	2188	198	0

The Bank's Management has evaluated its exposure to the interbank market and believes that several of its loans and deposits to be of a relatively high risk nature. As this risk is of an unspecified nature at this time. Management believes that a general provision is appropriate against its interbank loans and its nostro deposits held with its banking partners operating in the CIS and Baltic countries. A 1% general provision on outstanding CIS and Baltic interbank nostro deposits held with these institutions has been established and charged to the income statement for 1994 in the amount of LVL 21 thousand. Although no losses have arisen for the Bank in this market sector, Management believes it is now prudent to establish this policy and will monitor the adequacy of the provision.

Provision for loan losses of LVL 271 thousand charged to the income statement for the 1994 fiscal period is thus composed of the following:

	Amounts in 000s
Provision for loan loss charged to income statement for 1994:	
* Specific provision	169
* General provision	82
	250
Provision for high risk deposits with CIS and Baltic financial institutions charged to income statement for 1994:	
* Specific provision	0
* General provision	21
	21
Total provision charged to income statement for 1994:	271

In addition to provision in the amount of LVL 271 Thousand charged to loan loss provision for 1994 LVL 263 Thousand was directly written off to the income statement in connection with bad loans.

NOTE 10 TAXATION

Income taxes

The Bank has a tax holiday for 1994. Because of the Bank's tax holiday for 1994, the tax expense charged to the income statement for 1994 arises solely from property taxation.

For the period 1 July 1993 to 30 June 1995, the Bank is eligible for a tax holiday as a result of the Bank's shares held by L.I.C. Operating Corporation, Amstar and Maritime Investments, foreign entities. Following this period, the Bank is eligible for a 50% tax holiday for the period 1 July 1995 to 30 June 1999. Deferred taxes arise from temporary differences in the carrying value of certain items between these financial statements and the tax return. Management believes that the Bank's tax basis in its assets and liabilities at the end of the tax holiday will approximate the financial statement basis of its assets and liabilities. Accordingly, no deferred taxes have been provided.

Taxation	LVL 000s
Corporate income tax	0
Other taxation	1
Total per income statement	1

NOTE 11 BALANCE DUE FROM THE BANK OF LATVIA

In June 1994, the Central Bank (Bank of Latvia) issued a new regulation, effective 1 September 1994, which required that banks maintain 8% of the average monthly balance (calculated at four intervals during the month) of the following total:

Report of the Council and Board

The Council and Board of Directors of A/S Rietumu Banka are fully responsible for the financial statements prepared by them.

The financial statements from page 8 to 26 are prepared on the basis of source documents and give a fair and true view regarding the financial position of the financial institution.



Marianna Puskunigis Tony Levin
Chairman of the Board Chairman of the Council

Riga. 24 March 1995

President's Statement

I have the pleasure of presenting the annual report and financial statements of RIETUMU BANKA for the year ending, 31 December 1994. During the second year of the Bank's operations, RIETUMU BANKA has consolidated its position and gained a reputation as being a solid financial institution, both domestically and abroad. This is manifested in the constantly growing number of our customers as well as in the expanding cooperation with financial institutions in Latvia and abroad.

I wish to emphasise that the results of this year are of utmost importance for the Bank. We spent the second year developing the Bank's infrastructure and in defining our own niche in the Latvian banking sector. The Bank's development coincided with a very complicated and complex period of Latvia's economic transformation, which included developments in the entire financial system.

Due to the difficult economic environment, we adhered to a conservative lending policy with strong emphasis on credit worthiness and liquidity' but at the same time we were able to support our clients during all phases of the business cycle.

From the very beginning, the corner stone of our philosophy has been the belief that the Bank's long term growth and profitability are dependent upon our total commitments to the success of our clients. Taking into account the needs of our clients involved in international trade and finance, we are permanently expanding the network of correspondent banks all around the world. We offer a full range of services including letters of credit, import/ export financing, documentary collections and money transfer.

I would like to thank all of our customers for the confidence they have shown in us and the staff for their dedication and professionalism, which is an important reason for the results gained by the Bank. With our clients' and employees' continued support, we will renew our efforts during the coming year to increase profitability, improve the high quality of individual services to our customers and expand our business base.

I also wish to emphasize the contribution of our shareholders and investors in the success of the Bank's annual activity.





Tony Levin

President of Rietumu Banka

Rietumu Banka
7 Vesetas Street, Riga, LV-1013, Latvia
Balance Sheet
31 December 1994

	Notes	LVL 000s 1994	LVL 000s 1993
Assets			
Cash		435	1.570
Balance due from the Bank of Latvia	11	1 188	1 874
Due from other credit institutions	12	18 288	8 564
Loans and advances to customers	9,13,14	2 188	507
Transit loans	9,13,14	198	0
Prepaid expenses and accrued income	19	53	5
Other short term assets	18	1048	217
Investments in shares and securities	15	549	0
Participations in companies' share capital	16	201	0
Fixed assets	17	263	164
Total Assets		24 411	12 905
Liabilities			
Amounts owed to other credit institutions	20	2 734	574
Deposits from the public	21	16556	10480
Balances due to the Bank of Latvia	13	208	0
Prepaid income and accrued expenses	23	31	24
Other short term liabilities	22	2 473	506
Total Liabilities		22 002	11 584
Equity			
Share capital	24	2 500	1 059
Legal reserve	24	15	2
Appropriated retained earnings	24	0	(7)
Unappropriated retained earnings (including current year's result)	24	(106)	267
Total Equity		2 409	1 321
Total Liabilities and Equity		24 411	12 905


 Marianna Puskunigis
 Chairman of the Board


 Tony Levin
 President


 Aija Danilane
 Chief Accountant

Riga,
 24 March 1995

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

The 1993 income statement was not prepared in accordance with International Accounting Standards and was not audited in accordance with generally accepted auditing standards, accordingly, the balance sheet for the year ended December 31, 1993 is shown for information purposes only.

Auditors report

**ARTHUR
ANDERSEN
ARTHUR ANDERSEN & Co. SC**

Arthur Andersen

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LV-1010, Rīga, Latvija

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To the shareholders of Rietumu Banka,

We have audited the accompanying balance sheet of Rietumu Banka at 31 December 1994 and the related income statement for the year ended 31 December 1994. 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 audit.

We conducted our audit in accordance with international auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The documents and information contained on pages 8 to 26 form the financial statements. This auditors' report is on the Bank's financial statements for the year ended 31 December 1994. These financial statements are in accordance with the Law on Bank's Part 4 "The Financial Statements" and the Bank of Latvia's requirements and instructions on "The Financial Statements of the Commercial Banks and Other Credit Institutions" adopted in the decision No. 10/9 on 21 December 1993 by the Council of the bank of Latvia.

The balance sheet and statement of income are prepared in accordance with source documents. All records have been maintained on an ongoing basis throughout the financial year. All items have been recorded and estimated on a true basis and in a prudent manner. In this regard assets are estimated at the real value and reflect potential losses. Income has not been included in profit, if there was any doubt about receiving it. Expenses and losses have been taken into account while calculating profit. Liabilities have been reflected at their real estimation. All expected and possible future losses have been taken into account.

All necessary internal documentation has been fully maintained and available, if necessary, for review in order set by legislation.

This was our first audit of the financial statements of the Bank and it was not considered practical to extend our audit procedures with respect to the financial statements for the preceding year to enable us to express an opinion on the statement of income for the year ended 31 December 1994 or on the balance sheet for the year ended 31 December 1993. Accordingly, we do not express an opinion on the statement of income for the year ended 31 December 1994 or on the balance sheet for the year ended 31 December 1993.

As set out in Note 16, at 31 December 1994 the Bank owned a 49,97% share of a timber and construction company, S.I.A. Priedaine, which is stated as an investment held at a cost of LVL 32.995 in the financial statements. S.I.A. Priedaine is audited by another audit firm and the audit of this company has not been performed as at the completion date of the audit of Rietumu Banka. Due to the unavailability to Rietumu Banka of a complete and audited set of financials statements from S.I.A. Priedaine, the Bank has not been able to consolidate these figures with the Bank's financial statements as of 31 December 1994. As specific financial information has not been made available to us regarding this subsidiary and its affect on the financial position of Rietumu Banka, it is not possible for us to express an opinion on the consolidated financial position of the Bank, or on the investment in S.I.A. Priedaine as at 31 December 1994.

In our opinion, subject to the effect of such adjustments which may occur as a result of the issue outlined in the seventh paragraph, the balance sheet for Rietumu Banka presents fairly, in all material respects, the financial position of Rietumu Banka as at 31 December 1994 in conformity with International Accounting Standards.

ARTHUR ANDERSEN

A handwritten signature in cursive script that reads "Arthur Andersen".

Riga

24 March 1995