

A/S RIETUMU BANKA

**Financial Statements
for the year ended 31 December 1998**

**RIETUMU BANK
MANAGEMENT REPORT**

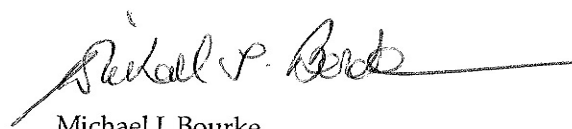
President's Statement of the Financial Statements for 1998

The economic crisis in Russia, which began in mid August 1998 had a major negative impact on the overall financial results of Rietumu Banka for 1998. The Bank maintained its strong record of operating profit from core banking operations throughout 1998 despite the extremely difficult situation after August. However, the default of the Russian Government on Domestic Debt, coupled with the devaluation of the Russian Rouble resulted in losses for the bank on holdings of Russian Government Bonds and this caused an overall net loss for 1998 of Ls 12.2 million. In arriving at this Net Loss situation, the Bank has taken a worst view on Government of Russia Ruble Bonds and written the major part off entirely. The final outcome of restructuring these Bonds is still unknown and may result in a higher value than the written down value in our Financial Statements. Despite the losses in 1998, the Bank finished the year with a Capital position of Lats 6.1m.

The core profitability of the Bank has continued during the first quarter of 1999 and this means that the Bank expects to return positive Net Profit in 1999. The aim of Management will be to recover as much of the 1998 losses as possible and to restore the Capital base of the bank to its former levels.

During 1999, the Bank will continue to build its client base in Latvia and to support clients in Latvia, mainly through competitive payments mechanisms and lending. The Bank intends to increase its client base and distribution network through opening some new branches in key business areas outside Riga and through developing Internet Banking. While concentrating on our operations in Latvia, we will support our Latvian clients which have business in CIS countries, especially to ensure secure and safe payments from CIS entities.

Continued strengthening of the management team at every level and investment in banking technology as well as ongoing vigilance over our cost base will ensure that the Bank will recover quickly the losses of 1998.



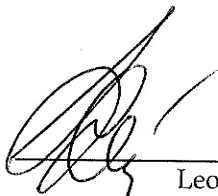
Michael J. Bourke
President

15 March 1999

RIETUMU BANK
STATEMENT OF MANAGEMENT RESPONSIBILITY

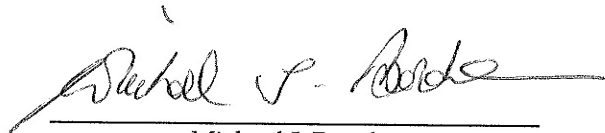
1. The management of the Bank are responsible for preparing financial statements from the books of prime entry of the Bank for each financial period that present fairly the state of affairs of the Bank as at the end of the financial year and the results of its operations and cash flows for that year.
2. The management confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements on pages 6 to 39 for the year ended 31 December 1998. The management also confirm that applicable International Accounting Standards have been followed and that the financial statements have been prepared on a going concern basis and comply with the Bank of Latvia regulations on Annual Reports of Credit Institutions in all material respects.
3. The management are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank, and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions and other legislation of the Republic of Latvia and with the regulations of the Bank of Latvia.
4. Notes 1 and 2 to the financial statements highlight the requirements of the Law on Credit Institutions and the Bank of Latvia for the operation of the Bank and the exposure of the Bank to Russia and CIS and its impact on the Bank. Note 2 highlights in particular the exposure of the Bank, and the current uncertainty, relating to the Russian Ministry of Finance bond due to mature on 14 May 1999. Management of the Bank consider that they have established prudent provisions to reflect the Bank's exposures to Russia and CIS countries as at 31 December 1998. Together with the budgets of the Bank for the coming year, the management confirm their opinion that the application of the going concern assumption is appropriate for the preparation of these financial statements

On behalf of management:



Leonid Esterkin
Chairman of the Council

15 March 1999



Michael J. Bourke
Chairman of the Management Board



**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
A/S RIETUMU BANKA**

Basis of opinion

We have audited the financial statements of A/S Rietumu Banka for the period ended 31 December 1998 on pages 6 to 39. These financial statements are the responsibility of the Bank's management, as referred to in their Statement of Management Responsibilities on page 4. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 1998 and the results of its operations and cash flows for the period then ended in accordance with International Accounting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 2 of the financial statements which describes the exposure of the Bank to Russia and CIS and its impact upon the Bank. Based on the knowledge and understanding of the current economic and market conditions management has made provisions for possible losses arising directly or indirectly from these conditions. However, due to ongoing uncertainty in the markets, including the risk of future default on Russian government securities, and the renegotiations of settlement dates of Russian debt there is a risk that further unprovided losses could arise.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers SIA
Riga, Latvia

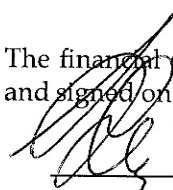
15 March 1999


RIETUMU BANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 1998

| | Notes | 31 December 1998 LVL'000 | 31 December 1997 LVL'000 |
|--|-------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and balances due from the Bank of Latvia | 4 | 8,167 | 8,600 |
| Securities eligible for refinancing by the Bank of Latvia | 5 | - | 596 |
| Claims on banks due on demand | 6 (a) | 9,950 | 35,146 |
| Other claims on banks | 6 (b) | 11,863 | 7,231 |
| Loans and advances to customers | 7,8 | 40,577 | 29,570 |
| Government bonds and other fixed income securities | 9 | 30,700 | 31,585 |
| Fixed income debts securities of other issuers | 10 | 173 | 82 |
| Equity shares and other non-fixed income investments | 11 | 261 | 1,008 |
| Investments in associates | 12 | 7 | 7 |
| Investments in business ventures | 13 | 90 | 102 |
| Fixed assets, net | 14 | 4,879 | 1,878 |
| Other assets | 15 | 2,005 | 1,514 |
| Accrued income and prepayments | 16 | 867 | 514 |
| Total assets | | <u>109,539</u> | <u>117,833</u> |
| Managed funds | 17 | 44,787 | 66,237 |
| Total assets and managed funds | | <u>154,326</u> | <u>184,070</u> |
| LIABILITIES | | | |
| Amounts due to banks on demand | 18 | 1,757 | 3,069 |
| Other amounts due to banks | 19 | 1,845 | 590 |
| Demand customer accounts | 20 | 64,759 | 86,408 |
| Other customer accounts | 21 | 34,345 | 9,534 |
| Other liabilities | | 63 | 162 |
| Accounts payable and accrued liabilities | 22 | 581 | 275 |
| Provisions for liabilities and charges | 23 | 77 | 207 |
| Total liabilities | | <u>103,427</u> | <u>100,245</u> |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 24 | 17,409 | 9,111 |
| Legal reserve | | 16 | 15 |
| Revaluation reserve | 14 | 901 | 163 |
| Retained earnings | | (12,214) | 8,299 |
| Total shareholders' equity | | <u>6,112</u> | <u>17,588</u> |
| Total liabilities and shareholders' equity | | <u>109,539</u> | <u>117,833</u> |
| Liabilities for managed funds | 17 | 44,787 | 66,237 |
| Total liabilities, shareholders' equity and liabilities for managed funds | | <u>154,326</u> | <u>184,070</u> |
| CONTINGENT LIABILITIES AND COMMITMENTS | 25 | <u>3,141</u> | <u>2,152</u> |

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

The financial statements were approved by the Management Board and Council on 15 March 1999 and signed on its behalf by:


 Leonid Esterkin
 Chairman of the Council


 Michael J. Bourke
 Chairman of the Management Board

RIETUMU BANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 1998

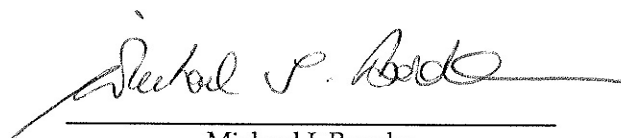
| | Notes | 31 December 1998 LVL'000 | 31 December 1997 LVL'000 |
|---|-------|--------------------------------|--------------------------------|
| Interest income | 26 | 8,904 | 6,890 |
| Interest expense | 27 | <u>(2,483)</u> | <u>(1,059)</u> |
| Net Interest Income | | 6,421 | 5,831 |
| Fees and commission income | 28 | 3,909 | 4,499 |
| Fees and commission expense | 29 | (476) | (289) |
| Foreign exchange profit/(loss) and profit/(loss) from deals with securities | 30 | (8,647) | 2,952 |
| Other operating income | 31 | <u>330</u> | <u>261</u> |
| Total Income | | 1,537 | 13,254 |
| Administrative expenses | 32 | <u>(4,920)</u> | <u>(4,103)</u> |
| Net (Loss)/Profit before Provisions for Loan Losses and Taxation | | (3,383) | 9,151 |
| Provisions for loan losses | 8 | (4,282) | (45) |
| Provision for investments | 8 | (4,486) | - |
| (Loss)/Profit before Taxation | | <u>(12,151)</u> | <u>9,106</u> |
| Taxation | 33 | <u>(63)</u> | <u>(807)</u> |
| Net (Loss)/Profit | | <u>(12,214)</u> | <u>8,299</u> |

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

The financial statements were approved by the Management Board and the Council on 15 March 1999 and signed on its behalf by:



Leonid Esterkin
Chairman of the Council



Michael J. Bourke
Chairman of the Management Board

RIETUMU BANK
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1998

| | 31 December 1998 LVL'000 | 31 December 1997 LVL'000 |
|--|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit (loss) before taxation | (12,151) | 9,106 |
| Depreciation | 514 | 339 |
| Provisions for loan losses | 8,768 | 45 |
| (Decrease) in provisions for liabilities and charges | (130) | (214) |
| Foreign currency revaluation reserve | 9,959 | (133) |
| Loss from disposal of fixed assets | - | 9 |
| Increase in accounts payable and accrued liabilities | 306 | 160 |
| (Increase) decrease in accrued income and prepayments | (353) | (75) |
| Decrease (increase) in other assets | (491) | (1,250) |
| Increase (decrease) in other liabilities | (99) | 159 |
| Operating profit before changes in operating assets | 6,323 | 8,146 |
| Decrease (increase) in securities eligible for refinancing by the Bank of Latvia | 596 | 2,476 |
| Decrease (increase) in government bonds and other fixed income securities | (3,601) | (28,707) |
| Decrease (increase) in bonds and other fixed income debt securities of other issuers | (91) | 6,463 |
| (Increase) decrease in equity shares and other non-fixed income investments | 747 | (565) |
| (Increase) decrease in other deposits due from other banks | (4,632) | (7,231) |
| (Increase) in loans and advances to customers | (15,289) | (22,124) |
| Increase (decrease) in other deposits due to other banks | 1,255 | 590 |
| Increase (decrease) in demand customer accounts | (21,649) | 29,139 |
| Increase in other customer accounts | 24,811 | 9,349 |
| Taxation | (63) | (807) |
| Net cash and cash equivalents (used in) provided by operating activities | (11,593) | (3,271) |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | |
| Purchase of fixed assets | (2,777) | (933) |
| Decrease in investments in associates | - | 24 |
| Decrease (increase) in investments in business ventures | 12 | (88) |
| Net cash and cash equivalents used in investment activities | (2,765) | (997) |
| Net (decrease) increase in cash and cash equivalents | (14,358) | (4,268) |
| Cash and cash equivalents at beginning of year | 40,677 | 44,812 |
| Foreign currency revaluation reserve | (9,959) | 133 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 16,360 | 40,677 |
| Cash and cash equivalents consists of: | | |
| Cash and balances due from the Bank of Latvia | 8,167 | 8,600 |
| Demand deposits due from other banks | 9,950 | 35,146 |
| Demand deposits due to other banks | (1,757) | (3,069) |

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