

A/S RIETUMU BANKA

**Interim Condensed Consolidated and Bank
Financial Statements for the six months
period ended 30 June 2001**

A/S Rietumu banka
Interim Condensed Consolidated and Bank Financial Statements
for the six months period ended 30 June 2001

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Interim Condensed Consolidated and Bank Financial Statements
for the six months period ended 30 June 2001*

Management Commentary

The first six months of 2001 were very positive for Rietumu Bank both from the view of successful operations and also from a strategic viewpoint. The bank has continued to build a very strong platform and can look forward confidentially to continued growth and success.

Operations and Financial Position.

The Bank recorded a Net Profit for the first 6 months of 2001 of Lats 2.8m while Net Profit for Rietumu Bank Group was Lats 2.8m. This represents an increase in Profitability for the Bank and the Group of Lats 0.960m and Lats 0.875m respectively on the comparable outturn for 2000. The Income base of the bank is spread between Treasury Operations, Commission Income and Income earned from Lending and Stock broking operations.

The Total Assets of the Group grew to Lats 249.7m at 30 June 2001 from Lats 153.1 m at the end of 2000, which represents an increase of 63%. This is reflected in the level of Clients Deposits, which grew by 61% to Lats 220.5m at 30 June 2001.

The Capital and Reserves stood at Lats 16.3m at 30 June 2001 which is an increase of Lats 5.6m (+52%) of the level at the end of 2000 Lats 10.7m. This reflects a new share emission of Lats 2.8 million in February 2001 and the profit for the first 6 months of 2001.

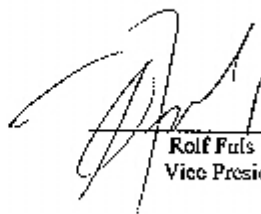
Strategic Developments.

On 23 February 2001, Rietumu Banka purchased 100% of the shares of Saules Bank, another Latvian bank. Saules bank was very similar to Rietumu with good profitability and a strong liquid financial position and this enhanced the profitability of Rietumu Banka Group. The purchase of Saules bank increases the client base of Rietumu Group significantly. Saules Banka ceased to exist on 30 June 2001 and Rietumu Banka became the successor of Saules Banka on this date. Saules Banka was successfully integrated into Rietumu Banka by 31 July 2001. The Management team was also strengthened at every level drawing the best from our new acquisition.



Leonid Esterkin
Chairman of the Council

10 August 2001



Rolf Fuhs
Vice President

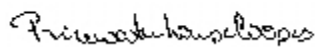
AUDITORS' REPORT

To the board of A/s Rietumu Banka

We have audited the accompanying interim condensed consolidated financial statements of A/s Rietumu Banka (the Group) and interim condensed financial statements of A/s Rietumu Banka (the Bank) for the 6 months period ended 30 June 2001. 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 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.

In our opinion, the interim condensed financial statements give a true and fair view of the financial position of the Group and the Bank as of 30 June 2001 and of the results of their operations and cash flows for the 6 months period then ended in accordance with International Accounting Standards.



PricewaterhouseCoopers SIA

10 August 2001

A/S Rietumu banka
Interim Condensed Consolidated and Bank Financial Statements
for the six months period ended 30 June 2001


Interim Statement of Income for the six month period ended 30 June 2001

| | Notes | Six months ended 30 June | | | |
|---|-------|--------------------------|--------------|--------------|--------------------|
| | | 2001 | | 2000 | |
| | | Group | Bank | Group | Bank (restated) |
| | | Ls '000 | Ls '000 | Ls '000 | Ls '000 |
| Interest income | | 6,405 | 4,568 | 3,321 | 3,176 |
| Interest expense | | (2,493) | (1,840) | (1,276) | (1,164) |
| Net interest income | | 3,912 | 2,728 | 2,045 | 2,012 |
| Commission and fee income | | 3,651 | 2,284 | 1,899 | 1,862 |
| Commission and fee expense | | (618) | (254) | (205) | (203) |
| Net commission and fee income | | 3,033 | 2,030 | 1,694 | 1,659 |
| Dividends received | | 2 | 2 | - | - |
| Profit on securities trading and foreign exchange, net | | 1,026 | 737 | 56 | 16 |
| Other operating income | | 363 | 20 | 63 | 34 |
| Operating income | | 8,336 | 5,517 | 3,858 | 3,721 |
| Administrative expense | | (4,292) | (2,690) | (1,932) | (1,908) |
| Amortisation and depreciation charge | | (931) | (591) | (363) | (357) |
| Other operating expense | | (119) | - | - | - |
| Provision expense for possible losses | 2 | (956) | (503) | - | - |
| Release of previously established provision | 2 | 666 | 538 | 335 | 335 |
| Losses of assets written off | | (20) | (20) | - | - |
| Share profits in subsidiaries | | - | 291 | - | 107 |
| Profit before income tax and minority interest | | 2,684 | 2,542 | 1,898 | 1,898 |
| Corporate income tax | | 83 | 231 | - | - |
| Net profit before minority interest | | 2,767 | 2,773 | 1,898 | 1,898 |
| Minority interest | | 6 | - | - | - |
| Net profit for the period | | 2,773 | 2,773 | 1,898 | 1,898 |

The financial statements on pages 5 to 12 have been approved by the management of the Bank on 10 August 2001 and signed on its behalf by:



Leonid Esterkin
 Chairman of the Council



Rolf Fuhs
 Vice President


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

A/S Rietumu banka
Interim Condensed Consolidated and Bank Financial Statements
for the six months period ended 30 June 2001


Interim Balance Sheet and Memorandum Items as at 30 June 2001

| | Notes | 30/06/01 | | 31/12/00 | |
|---|-------|------------------|-----------------|------------------|-----------------|
| | | Group Ls '000 | Bank Ls '000 | Group Ls '000 | Bank Ls '000 |
| Assets | | | | | |
| Cash and deposits with the Bank of Latvia | | 20,022 | 16,842 | 7,539 | 7,539 |
| Balances due from credit institutions | | 108,141 | 108,002 | 70,302 | 70,275 |
| Loans and advances to non-banking customers | 3 | 71,875 | 49,310 | 35,255 | 33,925 |
| Treasury bills and other fixed income securities | 4 | 34,316 | 34,316 | 30,421 | 30,421 |
| <i>Investment portfolio</i> | | 33,375 | 33,375 | 30,421 | 30,421 |
| <i>Trading portfolio</i> | | 941 | 941 | - | - |
| Shares and other non-fixed income securities | | 793 | 758 | 710 | 710 |
| Investments in associated entities | | - | - | 4 | 4 |
| Investments in subsidiaries | | - | 10,983 | - | 552 |
| Goodwill | | 2,036 | - | - | - |
| Property and equipment | | 9,629 | 5,639 | 5,306 | 5,275 |
| Other assets | | 2,195 | 1,355 | 3,070 | 604 |
| Prepayments and accrued income | | 679 | 333 | 494 | 461 |
| Total assets | | 249,686 | 227,538 | 153,101 | 149,766 |
| Liabilities | | | | | |
| Balances due to credit institutions | | 10,875 | 48,667 | 4,407 | 4,407 |
| Deposits from the public | | 220,504 | 161,594 | 137,097 | 133,804 |
| Other liabilities | | 568 | 71 | 75 | 75 |
| Accrued expense | | 1,136 | 910 | 765 | 723 |
| Provision for liabilities and charges | | 185 | - | 34 | 34 |
| Total liabilities | | 233,268 | 211,242 | 142,378 | 139,043 |
| Minority interest | | 122 | - | - | - |
| Shareholders' equity | | | | | |
| Paid-in share capital | | 20,209 | 20,209 | 17,409 | 17,409 |
| Revaluation reserve | | 821 | 821 | 821 | 821 |
| Legal and other reserves | | 16 | 16 | 16 | 16 |
| Retained earnings | | (4,750) | (4,750) | (7,523) | (7,523) |
| Total shareholders' equity | | 16,296 | 16,296 | 10,723 | 10,723 |
| Total liabilities and shareholders' equity | | 249,686 | 227,538 | 153,101 | 149,766 |
| Memorandum items | | | | | |
| Funds under trust management | | 79,047 | 38,619 | 53,626 | 35,220 |
| Contingent liabilities | | 2,392 | 435 | 337 | 337 |
| Financial commitments | | 7,104 | 3,688 | 841 | 841 |
| Foreign exchange transactions, net | | (95) | (95) | 19 | 19 |

The financial statements on pages 5 to 12 have been approved by the management of the Bank on 10 August 2001 and signed on its behalf by:



Leonid Esterkin
 Chairman of the Council



Rolf Fuhs
 Vice President

A/S Rietumu banka
Interim Condensed Consolidated and Bank Financial Statements
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Interim Statement of Changes in Shareholders' Equity for the six months period ended 30 June 2001

| | Paid-in share capital Ls '000 | Revaluation reserve Ls '000 | Legal and other reserves Ls '000 | Retained earnings Ls '000 | Total shareholders' equity Ls '000 |
|----------------------------------|--|--|---|--|---|
| Balance at 1 January 2000 | 17,409 | 901 | 16 | (12,051) | 6,275 |
| Net profit for the period | - | - | - | 1,898 | 1,898 |
| Balance at 30 June 2000 | 17,409 | 901 | 16 | (10,153) | 8,173 |
| Transfers | | (80) | | 80 | - |
| Net profit for the period | - | - | - | 2,550 | 2,550 |
| Balance at 1 January 2001 | 17,409 | 821 | 16 | (7,523) | 10,723 |
| Share issue | 2,800 | - | - | - | 2,800 |
| Net profit for the period | - | - | - | 2,773 | 2,773 |
| Balance at 30 June 2001 | 20,209 | 821 | 16 | (4,750) | 16,296 |

See Note 1 (a) on impact of changes in accounting policy for share of profits in subsidiaries.

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Interim Condensed Consolidated and Bank Financial Statements
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Interim Statement of Cash Flow for the six months period ended 30 June 2001

| | Six months ended 30 June | | | |
|---|--------------------------|-----------------|------------------|-----------------|
| | 2001 | | 2000 | |
| | Group Ls '000 | Bank Ls '000 | Group Ls '000 | Bank Ls '000 |
| Cash inflow/ (outflow) from operating activities | | | | |
| Profit before income tax and minority interest | 2,684 | 2,542 | 1,898 | 1,898 |
| Amortisation and depreciation of intangible assets and property and equipment and their write-offs | 786 | 446 | 363 | 363 |
| Goodwill amortisation | 145 | 145 | - | - |
| Increase/(decrease) in provisions for possible credit losses | 290 | 26 | (385) | (385) |
| Loss from revaluation of foreign currency | (60) | (57) | 114 | 114 |
| Gain from revaluation of long-term investments | - | (291) | - | (107) |
| Profit from disposals of tangible property and equipment | (5) | - | - | - |
| (Increase)/decrease in prepayments and accrued income | 295 | 128 | (81) | 3 |
| Increase/(decrease) in accrued expense | (6) | 187 | 65 | 5 |
| Decrease/(increase) in other assets | 4,055 | (751) | 4,486 | 4,338 |
| Decrease in other liabilities | (160) | (4) | (29) | (29) |
| Increase/(decrease) in provisions for liabilities and charges | (1,286) | 197 | 82 | 82 |
| Minority interest | 122 | - | - | - |
| Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations | 6,860 | 2,568 | 6,513 | 6,282 |
| Increase in investments in fixed income securities and shares | (3,946) | (3,965) | (10,815) | (10,815) |
| Decrease/(increase) in balances due from credit institutions | 28,050 | 32,639 | (5,850) | (5,981) |
| (Increase)/decrease in loans and advances to customers | (13,226) | (15,411) | 3,546 | 4,523 |
| (Decrease)/increase in balances due to credit institutions | (5,240) | 1,797 | (3,140) | (3,140) |
| (Decrease)/increase in deposits from the public | (54,850) | 27,790 | (1,469) | (391) |
| Increase in cash and cash equivalents from operating activities before corporate income tax | (42,352) | 45,418 | (11,215) | (9,522) |
| Corporate income tax | | | | |
| Corporate income tax paid | - | - | - | - |
| Net cash and cash equivalents from operating activities | (42,352) | 45,418 | (11,215) | (9,522) |
| Cash inflow/ (outflow) from investing activities | | | | |
| Purchase of property and equipment | (1,139) | (829) | (559) | (559) |
| Sale of equity investments in other entities and other long-term investments | 4 | 4 | 78 | 78 |
| Acquisition of subsidiaries, net of cash acquired | 118,961 | (10,263) | - | - |
| Sale of property and equipment | 20 | 20 | - | - |
| Increase/ (decrease) in cash and cash equivalents from investing activities | 117,846 | (11,068) | (481) | (481) |
| Cash inflow/ (outflow) from financing activities | | | | |
| Share issue | 2,800 | 2,800 | - | - |
| Increase in cash and cash equivalents from financing activities | 2,800 | 2,800 | - | - |
| Net cash inflow/ (outflow) for the period | 78,294 | 37,150 | (11,696) | (10,003) |
| Cash and cash equivalents at the beginning of the period | 43,769 | 43,742 | 34,155 | 32,419 |
| Profit/(Loss) from revaluation of foreign currency | 60 | 57 | (114) | (114) |
| Cash and cash equivalents at the end of the period | 122,123 | 80,949 | 22,345 | 22,302 |

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Interim Condensed Consolidated and Bank Financial Statements
for the six months period ended 30 June 2001

Notes to the Financial Statements

Note 1 Accounting policies

These consolidated interim condensed financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2000, except for the following changes:

At 1 January 2001 The Bank and the Group adopted International Accounting Standard 39. Investments are classified upon acquisition as trading securities or held-to-maturity securities. Trading securities are carried at their market value as at the reporting date. Held-to-maturity securities are carried at cost value, which is adjusted if the management is of opinion that there is another than temporary diminution in value.

a) Revaluation of investments in subsidiaries

During the reporting period, the Bank has changed its accounting policy for the share of profits in subsidiaries. During the previous reporting periods, this result was credited directly to the revaluation reserve. Now this is credited to the Income Statement and then included in Retained earnings. This change in accounting policy has been accounted for retrospectively. The comparative statements for the 6 months period ended 30 June 2000 have been restated to conform to the changed policy. The effect of the change is an increase in the revenue from the share of profits reported in the Income Statement of LVL 630 thousands (in 2001) and LVL 107 thousands (in 2000). Opening Retained earnings have been increased by LVL 540 thousands, which is the amount of the adjustment relating to periods prior to 1 January 2001.

b) Investments

Prior to adoption of IAS 39 certain equity securities, except for trading securities, were classified as investment. Adopting IAS 39 these investments were reclassified as financial assets held for trading. IAS 39 has been applied prospectively in accordance with the requirements of this standard and therefore comparative financial information has not been restated.

Corporate income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

These interim financial statements should be read in conjunction with the 2000 annual financial statements.

The Bank has merged with one of its subsidiaries, JSC "Saules banka" on 1 July 2001. The Bank assumed all assets and liabilities of the subsidiary at their carrying value as at 30 June 2001. According to the agreement between the Bank and its subsidiary, the Bank as of 1 July 2001 will continue all operations carried out by the subsidiary up to the date of the merger. The subsidiary will cease to exist and will be deregistered from the Company Registrar.

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Note 2 Provision expense for possible credit losses and release of previously established provision

(a) Bank provision expense for possible credit losses and release of previously established provision

| | Balances due from credit institutions | Loans and advances | T-bills and other securities | Other assets | Total |
|--|---|-----------------------|------------------------------------|-----------------|--------------|
| | Ls '000 | Ls '000 | Ls '000 | Ls '000 | Ls '000 |
| 1 January 2001 | | | | | |
| Specific | 66 | 492 | 27 | 2 | 587 |
| General | - | 523 | - | - | 523 |
| <i>Increase</i> | | | | | |
| Specific | - | 503 | - | - | 503 |
| General | - | - | - | - | - |
| <i>Release</i> | | | | | |
| Specific | (29) | (153) | (32) | - | (214) |
| General | - | (324) | - | - | (324) |
| Charge to Income Statement | (29) | 26 | (32) | - | (35) |
| Total reversal of specific provision due to write-offs | | | | | |
| Foreign exchange difference | - | 22 | 5 | - | 27 |
| 30 June 2001 | | | | | |
| Specific | 37 | 864 | - | 2 | 903 |
| General | - | 208 | - | - | 208 |
| Total | 37 | 1,072 | - | 2 | 1,111 |

(b) Group provision expense for possible credit losses and release of previously established provision

| | Balances due from credit institutions | Loans and advances | T-bills and other securities | Accrued interest Income | Guarantees and irrevocable letters of credit and other assets | Total |
|--|--|--------------------------|------------------------------------|-------------------------------|--|--------------|
| | Ls '000 | Ls '000 | Ls '000 | Ls '000 | Ls '000 | Ls '000 |
| 1 January 2001 | | | | | | |
| Provision | 66 | 1,015 | 27 | - | 2 | 1,110 |
| Acquisition of subsidiary | 2 | 641 | - | 3 | 43 | 689 |
| <i>Increase</i> | | | | | | |
| Specific | 38 | 788 | - | 2 | 128 | 956 |
| <i>Release</i> | | | | | | |
| Specific | (29) | (571) | (32) | (1) | (33) | (666) |
| Charge to Income Statement | 9 | 217 | (32) | 1 | 95 | 290 |
| Total reversal of specific provision due to write-offs | (2) | (347) | - | (3) | (19) | (371) |
| Foreign exchange difference | - | 34 | 5 | - | - | 39 |
| 30 June 2001 | | | | | | |
| Provision | 75 | 1,560 | - | 1 | 121 | 1,757 |
| Total | 75 | 1,560 | - | 1 | 121 | 1,757 |

A/S Rietumu banka
Interim Condensed Consolidated and Bank Financial Statements
for the six months period ended 30 June 2001

Note 3 Loans and advances to non-banking customers

Loans and advances to non-banking customers comprise the following:

| | 30/06/01 | | 31/12/00 | |
|--|------------------|-----------------|------------------|-----------------|
| | Group Ls '000 | Bank Ls '000 | Group Ls '000 | Bank Ls '000 |
| Commercial loans | 37,400 | 19,485 | 18,881 | 18,881 |
| Loans under reverse repurchase agreements | 19,170 | 19,170 | - | - |
| Utilised credit lines | 9,793 | 9,793 | 13,354 | 12,024 |
| Total gross loans to non-banking customers | 66,363 | 48,448 | 32,235 | 30,905 |
| Factoring | 74 | - | - | - |
| Overdraft facilities on demand deposit accounts | 6,435 | 1,651 | 3,842 | 3,842 |
| Credit balances on settlement cards | 563 | 283 | 193 | 193 |
| Total other credit balances | 7,072 | 1,934 | 4,035 | 4,035 |
| Total gross loans and advances to non-banking customers | 73,435 | 50,382 | 36,270 | 34,940 |
| Less provision for possible credit losses (note 2) | (1,560) | (1,072) | (1,015) | (1,015) |
| Total net loans and advances to non-banking customers | 71,875 | 49,310 | 35,255 | 33,925 |

Note 4 Treasury bills and other fixed income securities

| | 30/06/01 | | 31/12/00 | |
|---|------------------|-----------------|------------------|-----------------|
| | Group Ls '000 | Bank Ls '000 | Group Ls '000 | Bank Ls '000 |
| Treasury bills | 13,056 | 13,056 | 22,129 | 22,129 |
| Government bonds | 2,879 | 2,879 | 3,577 | 3,577 |
| Corporate bonds | 18,381 | 18,381 | 4,742 | 4,742 |
| Total gross Treasury bills and other fixed income securities | 34,316 | 34,316 | 30,448 | 30,448 |
| Less provision for possible credit losses | - | - | (27) | (27) |
| Total net Treasury bills and other fixed income securities | 34,316 | 34,316 | 30,421 | 30,421 |

Total investments in Treasury bills and other fixed income securities are classified by listed and unlisted securities as follows:

| | 30/06/01 | | | 31/12/00 | | |
|---|-------------------|---------------------|------------------|-------------------|---------------------|------------------|
| | Listed Ls '000 | Unlisted Ls '000 | Total Ls '000 | Listed Ls '000 | Unlisted Ls '000 | Total Ls '000 |
| Treasury bills | | | | | | |
| US Treasury bills | 13,056 | - | 13,056 | 22,129 | - | 22,129 |
| | 13,056 | - | 13,056 | 22,129 | - | 22,129 |
| Government bonds | | | | | | |
| OECD government bonds | - | - | - | 367 | - | 367 |
| Russian government bonds | 941 | - | 941 | 1,348 | - | 1,348 |
| Other non-OECD government bonds | 1,938 | - | 1,938 | 1,862 | - | 1,862 |
| | 2,879 | - | 2,879 | 3,577 | - | 3,577 |
| Corporate bonds | | | | | | |
| OECD corporate bonds | 18,381 | - | 18,381 | 4,742 | - | 4,742 |
| | 18,381 | - | 18,381 | 4,742 | - | 4,742 |
| Total gross Treasury bills and other fixed income securities | 34,316 | - | 34,316 | 30,448 | - | 30,448 |
| Less provision for possible credit losses | - | - | - | (27) | - | (27) |
| Total net Treasury bills and other fixed income securities | 34,316 | - | 34,316 | 30,421 | - | 30,421 |

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Interim Condensed Consolidated and Bank Financial Statements
for the six months period ended 30 June 2001

Note 5 Acquisition

Saules banka

On 23 February 2001 The Bank acquired 100% shares of JSC "Saules banka", Latvia.

Details on the net assets acquired

| | |
|------------------------------------|---------|
| Purchase consideration (cash paid) | 10,263 |
| Fair value of net assets acquired | (8,082) |
| Goodwill | 2,181 |

The assets and liabilities arising from the acquisition are as follows:

| | |
|---------------------------------------|---------------|
| Investments | 656 |
| Debtors | 23,611 |
| Cash and cash equivalents | 129,224 |
| Fixed assets | 3,985 |
| Other assets | 2,524 |
| Accrued income and deferred expense | 315 |
| Provisions for possible credit losses | (689) |
| Liabilities | (151,167) |
| Accrued expense and deferred income | (377) |
| Fair value of net assets | 8,082 |
| Goodwill | 2,181 |
| Total purchase consideration | 10,263 |

Note 6 Subsidiary undertakings

| <u>Name</u> | <u>Business</u> | <u>Share</u> | | <u>Country of incorporation</u> |
|--------------------------------------|-----------------------------|-----------------|-----------------|---------------------------------|
| | | <u>30/06/01</u> | <u>31/12/00</u> | |
| JSC "Saules bank" | Bank | 100% | - | Latvia |
| "RB Securities" Ltd | Financial services | 100% | 100% | Cyprus |
| "Rietumu consult" | Advisory services | 50% | 50% | Belarus |
| JSC "Baltijas Karšu Centrs" | Processing of payment cards | 75% | - | Latvia |
| JSC "Šaules investīcijas" | Brokerage services | 100% | - | Latvia |
| JSC "Baltijos Vertybiniai popieriai" | Brokerage services | 99% | - | Lithuania |

Note 7 Capital adequacy

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and similar risks arising from the portfolio of assets of the Bank and the memorandum items exposure of the Bank.

The Bank's risk based capital adequacy ratio, as at 30 June 2001 was 11.84% (12.43% - if net profit for the 6 months period is included in the regulatory capital), which is above the minimum ratio recommended by the 1998 Basle Committee guidelines of 8%. In accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 12.43% (13.01%). The Finance and Capital Market Commission requires Latvian banks to maintain a capital adequacy ratio based on Latvian financial statements prepared under Latvian accounting standards of 10% of risk-weighted assets.