

**Deloitte &  
Touche**

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*Rietumu Bank*

*Independent Auditors' Report and  
Financial Statements  
31 December 1995*

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**Deloitte Touche  
Tohmatsu  
International**

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**RIETUMU BANK  
INDEPENDENT AUDITORS' REPORT AND  
INTERNATIONAL FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 1995  
TABLE OF CONTENTS**

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	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>3</b>
<b>INTERNATIONAL FINANCIAL STATEMENTS:</b>	
<b>PROFIT AND LOSS ACCOUNT</b>	<b>4</b>
<b>BALANCE SHEET</b>	<b>5</b>
<b>STATEMENT OF SHAREHOLDERS' INVESTMENT</b>	<b>6</b>
<b>CASH FLOW STATEMENT</b>	<b>7</b>
<b>ACCOUNTING POLICIES</b>	<b>8-10</b>

**INDEPENDENT AUDITORS' REPORT**

To the shareholders of Rietumu Bank:

We have audited the accompanying balance sheet of Rietumu Bank ("the Bank") as of 31 December 1995, and the related profit and loss account and statements of cash flow and shareholders' investment for the year then ended on pages 4 to 7. 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 1995, and the results of its operations and its cash flow for the year then ended in accordance with International Accounting Standards.

Deloitte & Touche

Riga, Latvia


12 February 1996

**RIETUMU BANK**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 1995**

	Notes	1995 LVL'000	1994 (Note 20) LVL'000
Interest income	2	1,026	729
Interest expense	3	411	458
<b>NET INTEREST INCOME</b>		<b>615</b>	<b>271</b>
Fees and commission income, net		1,772	1,345
Foreign exchange profit, net		2,038	478
Net (loss) / gain arising from investment activities	4	(289)	16
Other operating income	5	88	30
<b>TOTAL INCOME</b>		<b>4,224</b>	<b>2,140</b>
Provision for loan losses	6	607	271
<b>NET INCOME AFTER PROVISION FOR LOANS LOSSES</b>		<b>3,617</b>	<b>1,869</b>
Salaries and related social expenses	7	374	208
Depreciation	16	168	55
Other administrative expenses	8	967	927
<b>PROFIT BEFORE TAXATION</b>		<b>2,108</b>	<b>679</b>
Taxation	9	2	1
<b>PROFIT AFTER TAXATION</b>		<b>2,106</b>	<b>678</b>

*The accompanying accounting policies and notes on pages 8 to 21 are an integral part of these financial statements.*

The financial statements on pages 4 to 21 were approved by the Management Board on 12 February 1996 and signed on its behalf by:

  
 \_\_\_\_\_  
 Chairman of the Management Board

  
 \_\_\_\_\_  
 Chief Accountant

**RIETUMU BANK**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 1995**

		1995	1994
	Notes	LVL'000	(Note 20) LVL'000
<b>ASSETS</b>			
Cash		2,005	435
Balances due from Bank of Latvia	10	3,090	1,188
Due from other banks	11	37,865	18,288
Loans and advances to customers	6, 12	782	2,386
Investments	13	198	623
Investments in affiliates	14	165	201
Accrued income, prepayments and other short term assets	15	259	1,027
Fixed assets	16	947	298
<b>Total assets</b>		<u><u>45,311</u></u>	<u><u>24,446</u></u>
<b>LIABILITIES</b>			
Due to other banks	17	1,877	2,942
Current and term deposit accounts	18	38,775	19,015
Accounts payable and accrued liabilities		90	31
Other liabilities		19	14
<b>Total liabilities</b>		<u><u>40,761</u></u>	<u><u>22,002</u></u>
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	19	2,500	2,500
Legal reserve		15	15
Retained earnings/(accumulated deficit)	20	2,035	(71)
<b>Total share capital and reserves</b>		<u><u>4,550</u></u>	<u><u>2,444</u></u>
<b>Total liabilities, share capital and reserves</b>		<u><u>45,311</u></u>	<u><u>24,446</u></u>

*The accompanying accounting policies and notes on pages 8 to 21 are an integral part of these financial statements.*

**RIETUMU BANK**  
**STATEMENT OF SHAREHOLDERS' INVESTMENT**  
**AS AT 31 DECEMBER 1995**

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	Share Capital	Legal Reserve	Retained Earnings / (Accu- mulated Deficit)	Total
	<u>LVL'000</u>	<u>LVL'000</u>	<u>LVL'000</u>	<u>LVL'000</u>
At 1 January 1994	1,059	2	260	1,321
Current period profit (Note 20)			678	678
Shareholders' contribution - cash	443			443
Paid in capital	749		(749)	-
Allocations of prior period profit	249	13	(260)	-
<b>At 1 January 1995</b>	<b>2,500</b>	<b>15</b>	<b>(71)</b>	<b>2,444</b>
Current period profit	-	-	2,106	2,106
<b>At 31 December 1995</b>	<b>2,500</b>	<b>15</b>	<b>2,035</b>	<b>4,550</b>

*The accompanying accounting policies and notes on pages 8 to 21 are an integral part of these financial statements.*



**RIETUMU BANK  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 1995**

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	1995 LVL'000
<b>OPERATING ACTIVITIES</b>	
Profit after taxation	2,106
Depreciation	168
Provision for loan losses	607
Increase in balance due from the Bank of Latvia	(1,902)
Increase in amounts due from other banks	(19,577)
Decrease in loans and advances to customers	997
Decrease in accrued income, prepayments and other short term assets	768
Decrease in amounts due to other banks	(1,065)
Increase in current and deposit accounts	19,760
Decrease in accounts payable and other liabilities	64
<b>Net cash provided by operating activities</b>	<u>1,926</u>
<b>INVESTMENT ACTIVITIES</b>	
Investments	425
Investments in affiliates	36
Net purchase of fixed assets	(817)
<b>Net cash (used in) investing activities</b>	<u>(356)</u>
<b>Net increase in cash</b>	<b>1,570</b>
<b>Cash at beginning of the year</b>	<u>435</u>
<b>CASH AT END OF YEAR</b>	<u><u>2,005</u></u>

*The accompanying accounting policies and notes on pages 8 to 21 are an integral part of these financial statements.*

**RIETUMU BANK**  
**ACCOUNTING POLICIES**  
**31 DECEMBER 1995**

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The significant accounting policies adopted by Rietumu Bank ("The Bank") are set out below.

**BASIS OF PREPARATION**

The financial statements presented include only the accounts of the Bank. No accounts of subsidiaries are consolidated. All inter company transactions are included at the amount of any transaction.

The financial statements have been prepared on the historical cost basis of accounting, in accordance with International Accounting Standards (IAS) and general practices within the banking industry. The following summarises the more significant of these policies.

**INTEREST, FEES AND COMMISSIONS**

Interest income is recognised on the accrual basis. The bank fully provides for interest accrued on loans it classifies as "doubtful" or "loss".

Commissions, fees and other income are credited to income when earned.

**FOREIGN CURRENCIES**

Transactions denominated in foreign currency are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including unmatured commitments to deliver or acquire foreign currencies under spot exchange transactions, are translated at the rate of exchange on the balance sheet date. The applicable rates used for the principal currencies as at 31 December 1995 were as follows:

USD	0.537
UKR	0.000003
SUR	0.0001164
BLR	0.0000468
DEM	0.376

All resulting gains and losses relating to cash are recorded in the profit and loss account in the period in which they arise. Gains and losses on translation are credited or charged at foreign exchange rates 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.

**PROVISION FOR LOAN LOSSES**

As at 31 December 1994 and 1995, loans represent the unpaid principal balance of loans less provision for loan losses.



**RIETUMU BANK**  
**ACCOUNTING POLICIES**  
**31 DECEMBER 1995**

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The Bank provides commercial and consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the borrower's ability to repay their loans. Management and the Directors have considered risk in determining the balance of provisions and possible loan losses. Provision for loan losses as at the 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. The value of the collateral held in connection with the loan is based on its estimated realisable value and is taken into account when estimating the required provision.

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

- specific provision for loans identified as non-performing
- specific provision for probable losses on credits identified as high risk
- general provision for the Bank's total exposure to:
  - identified loan concentration risk
  - each customer and their general financial position
  - collateral values
  - possible measures implemented to improve troubled customers' financial position
  - general market or operating events that have occurred 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 provision 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 and do not vary materially from the guidelines established by the Bank of Latvia regarding provision for loan losses.

## **INVESTMENTS**

Investments comprise trading securities and investment securities. Trading securities are generally comprised of assets that are actively and frequently bought and sold with the objective of generating income on short-term differences in price. Investment securities are acquired for yield or capital growth purposes and are usually held to maturity.

Trading securities are stated at the lower of cost or market value using a method of specific identification.

Investment securities are stated at cost, unless there is a permanent diminution in value at which time the investment is written down to market value.

**RIETUMU BANK**  
**ACCOUNTING POLICIES**  
**31 DECEMBER 1995**

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**INVESTMENTS IN AFFILIATES**

Investments in subsidiaries and associates are stated at cost. Consolidated financial statements which consolidate the financial statements of the Bank and its subsidiaries have not been prepared as the financial effects are not considered to be significant.

**TANGIBLE FIXED ASSETS**

Tangible fixed assets are stated at historical 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 provided in equal annual instalments except for the month placed in service over the expected useful lives as follows:

Vehicles	5 years
Furniture, fixtures and equipment	10 years
Computer hardware and software	5 years
Leasehold refurbishments	10 years
Other	2 to 5 years

All assets in excess of LVL 50 are capitalised. Gains and losses on disposal of fixed assets are recognised in the profit and loss account in the year of disposal.

**FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

In the normal course of business, the bank enters into financial instruments with off-balance sheet risk, which include foreign exchange contracts and issued guarantees. These financial instruments involve, to varying degrees, elements of credit, interest rate and currency risk. Provision is made for estimated losses, if any, on such off-balance sheet items.

**REGULATORY REQUIREMENTS**

The Bank is subject to the regulatory requirements of the Bank of Latvia. These requirements include capital adequacy, liquidity and foreign currency position.