RIETUMU BANK GROUP

Independent auditors' report and Consolidated Financial Statements prepared in accordance with International Accounting Standards and the Bank of Latvia requirements for the years ended 31 December 2000 and 1999

The year 2000 was very positive for Rietumu Bank both from the view of successful operations and also from a strategic viewpoint. The bank is now on 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 2000 of Lats 3.9m while Net Profit for Rietumu Bank Group was Lats 4.4m. This represents an increase in Profitability for the Bank and the Group of Lats 3.7m and Lats 4.3m respectively on the comparable outturn for 1999. This marks a return to strong profitability from normal banking operations, which is very positive for Rietumu Banka Group. In addition, the Income base of the bank is spread between Treasury Operations, Commission Income and Income earned from Lending and Stockbroking operations. This is in line with our strategic target to build a strong Financial Services Group based in Latvia servicing Corporate and High Net Worth clients.

The Total Assets of the Bank grew to Lats 150m at the end of 2000 from Lats 112m at the end of 1999, which represents an increase of 34%. This is reflected in the level of Clients Deposits, which grew by 34.7% to Lats 133.8m at the end of 2000.

The Capital and Reserves stood at Lats 10.7m at the end of 2000 which is an increase of Lats 4.4m (+70.9%) of the level at the end of 1999 Lats 6.3m. This reflects the Net Profit in 2000, which was fully retained.

Strategic Developments.
In the third quarter of 2000, the Management entered into negotiations with the owners of Saules bank in Latvia with a view to purchasing 100% of the shares in this bank. These negotiations were successful and this deal was closed in February, 2001. Saules bank is very similar to Rietumu with good profitability and a strong liquid Financial positions. The purchase of Saules bank increases the client base of Rietumu Group significantly and brings combined Total Assets to around Lats 330m. Saules Bank will be integrated into the Rietumu Group during 2001.

In parallel, IslandsbankiFBA (ISFBA), the largest bank in Iceland, announced its intention to purchase 56.2% of the shares of Rietumu Bank Group as part of its strategy to expand into the fast expanding markets in the Baltic countries and the CIS. This marks the successful work of the Management of Rietumu Banka in attracting a suitable and dynamic strategic investor into Rietumu and places the bank on a very strong footing for future growth and success. ISFBA shares our vision of primarily servicing Corporate clients and High Net Worth individuals in Latvia, the other Baltic countries and the CIS. The ISFBA transaction is scheduled to close in early April, 2001

Looking forward.
The Management projects strong growth during 2001 with the combined Rietumu Banka / Saules Banka profit expected to reach Lats 7.5m. The bank will expand activities in areas such as Corporate Finance, Leasing and Trade Finance during 2001 building on the expertise and resources of its new strategic partner ISFBA. This will lead to further growth and assets. In 2001, the bank will launch its new internet banking facility which will increase our ability to attract an even wider range of clients - once again, with the main focus on Corporate clients. The Management team will be strengthened at every level drawing the best from our new acquisition to fill key positions already identified. Above all, we will continue to improve our services and products so that we ensure that our increasing client base gets a professional and cost effective service at all stages. This is the key to our continued success as a significant bank in this region of Emerging Europe.

On behalf of the Management of the Bank:

Leonid Esterkin Chairman of the Council	Michael J. Bourke Chairman of the Management Board

13 March 2001

As of the date of the signing of the financial statements:

The Council of Rietumu bank

1 January 2000 – 1 January 2001

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98
Arkady Syharenko	Deputy Council Chairman	15/04/98
Valentin Bluger	Member of the Council	15/04/98

The Board of Directors

1 January 2000 – 1 January 2001

Name	*Position*	*Date of appointment*
Michael Bourke	Chairman of the Board	11/12/98
Natalia Fetisova	First Deputy Chairwoman of the Board	11/12/98
Rolf Fuls	Member of the Board (Vice-president)	11/12/98
Alexander Kalinovsky	Member of the Board (Vice-president)	11/12/98
Yevgeny Shikhman	Member of the Board (Vice-president)	11/12/98
Elena Popova	Member of the Board (Vice-president)	27/12/00

Elena Popova became member of the Board on 27 December 2000. There were no other changes in the Board of Directors of the Bank during the period beginning 31 December 2000 through the date of the signing of these financial statements.

The Management of Rietumu Bank (Bank) are responsible for the preparation of the consolidated financial statements of the Bank and its subsidiary – "RB Securities Limited" (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated financial statements on pages 7 to 37 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2000 and 1999 and the results of its operations and cash flows for the years ended 31 December 2000 and 1999 as well as the financial position of the Bank as of 31 December 2000 and 1999 and the results of its operations and cash flows for the years ended 31 December 2000 and 1999.

The consolidated financial statements are prepared in accordance with International Accounting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of Rietumu Bank are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Management of the Bank:

Leonid Esterkin Chairman of the Council	Michael J. Bourke Chairman of the Management Board

13 March 2001

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INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC "Rietumu Banka":

We have audited the accompanying consolidated balance sheet of JSC "Rietumu Banka" and its subsidiary ("the Group") as of 31 December 2000, and the related consolidated statements of profit and loss, changes in shareholders' equity and cash flows for the year then ended. We have also audited the accompanying balance sheet of JSC "Rietumu Banka" ("the Bank") as of 31 December 2000, and the related statements of profit and loss, changes in shareholders'equity and cash flows for the year 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 audit.

The financial statements for the year ended 31 December 1999 were audited by other auditors whose report dated 17 March 2000 expressed an unqualified opinion on these financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of the Group and the Bank as of 31 December 2000 and the results of their operations and cash flows for the year then ended in accordance with International Accounting Standards and Bank of Latvia requirements.

Deloitte & Touche

Deloitte &Touche
Riga, Latvia
13 March 2001

(LVL '000)

		31 December 2000		31 December 1999	
ASSETS	**Notes**	**Group**	**Bank**	**Group**	**Bank**
Cash and deposits with the Bank of Latvia	4	7,539	7,539	6,075	6,075
Balances due from credit institutions, net	5	70,302	70,275	31,869	30,133
Demand deposits, net		*36,302*	*36,275*	*28,252*	*26,516*
Term deposits		*34,000*	*34,000*	*3,617*	*3,617*
Loans and advances to non-banking customers, net	6	35,255	33,925	34,118	34,118
Government bonds and other fixed income securities, net	7	30,421	30,421	30,266	30,266
Shares and other non-fixed income securities, net	8	710	710	955	955
Investments in subsidiaries, net	9	4	556	85	96
Fixed assets, net	10	5,306	5,275	4,807	4,807
Other assets, net	11	3,070	604	5,212	5,050
Prepayments and accrued income, net	12	494	461	258	239
Total assets		**153,101**	**149,766**	**113,645**	**111,739**
Managed assets	13	53,626	35,220	31,153	28,054
Total assets and managed assets		**206,727**	**184,986**	**144,798**	**139,793**

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the Council and the Board of Directors of the Bank on 13 March 2001 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Management Board

RIETUMU BANK GROUP
CONSOLIDATED BALANCE SHEETS AND MEMORANDUM ITEMS
AS OF 31 DECEMBER 2000 AND 1999
(LVL '000)

	Notes	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
LIABILITIES					
Balances due to credit institutions	14	4,407	4,407	5,720	5,720
Demand deposits		*72*	*72*	*172*	*172*
Term deposits		*4,335*	*4,335*	*5,548*	*5,548*
Deposits from the public	15	137,097	133,804	101,163	99,273
Demand deposits		*103,328*	*101,445*	*73,834*	*71,944*
Term deposits		*33,769*	*32,359*	*27,329*	*27,329*
Other liabilities		75	75	37	37
Deferred income and accrued expense	16	765	723	391	368
Provisions for liabilities and charges	17	34	34	59	59
Total liabilities		**142,378**	**139,043**	**107,370**	**105,457**
SHAREHOLDERS' EQUITY					
Paid-in share capital	18	17,409	17,409	17,409	17,409
Legal reserve		16	16	16	16
Revaluation reserve		821	1,361	901	901
Accumulated loss		(11,971)	(11,971)	(12,214)	(12,214)
Current year profit		4,448	3,908	163	170
Total shareholders' equity		**10,723**	**10,723**	**6,275**	**6,282**
Total liabilities and shareholders' equity		**153,101**	**149,766**	**113,645**	**111,739**
Managed liabilities	13	53,626	35,220	31,153	28,054
Total liabilities, shareholders' equity and managed liabilities		**206,727**	**184,986**	**144,798**	**139,793**
MEMORANDUM ITEMS					
Contingent liabilities	27	337	337	269	269
Commitments	27	841	841	713	713
Foreign exchange transactions, net	27	19	19	(10)	(10)
		1,197	**1,197**	**972**	**972**

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the Council and the Board of Directors of the Bank on 13 March 2001 and signed on their behalf by:

Leonid Esterkin Chairman of the Council	Michael J. Bourke Chairman of the Management Board

RIETUMU BANK GROUP
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999
(LVL '000)

	Notes	2000 Group	2000 Bank	1999 Group	1999 Bank
Interest income	19	7,153	6,834	5,949	5,944
Interest expense	20	(2,776)	(2,546)	(2,020)	(2,020)
Net interest income		**4,377**	**4,288**	**3,929**	**3,924**
Commission and fee income	21	4,340	4,112	3,129	3,067
Commission and fee expense	22	(531)	(456)	(344)	(342)
Net commission and fee income		**3,809**	**3,656**	**2,785**	**2,725**
Net gain from trading with securities and foreign currencies	23	518	90	1,916	1,731
Other operating income		69	37	114	88
Operating income		**8,773**	**8,071**	**8,744**	**8,468**
Administrative expense	24	(4,987)	(4,857)	(4,974)	(4,731)
Provisions for possible credit losses	*25*	*(4,099)*	*(4,099)*	*(2,768)*	*(2,750)*
Release of previously established provisions	*25*	*4,881*	*4,881*	-	-
Net provision expense for possible credit losses		782	782	(2,768)	(2,768)
Losses of assets written off		(154)	(154)	(67)	(45)
Net gain (loss) from revaluation of long term investments		59	66	(772)	(772)
PROFIT BEFORE TAXATION		**4,473**	**3,908**	**163**	**170**
Taxation	26	(25)	-	-	-
NET PROFIT FOR THE YEAR		**4,448**	**3,908**	**163**	**170**

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the Council and the Board of Directors of the Bank on 13 March 2001 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Management Board

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999
(LVL '000)

	Paid-in share capital	**Legal reserve**	**Revalua-tion reserve**	**Accumula-ted loss**	**Total shareholders' equity**
As of 31 December 1998	**17,409**	**16**	**901**	**(12,214)**	**6,112**
Net profit for the year	-	-	-	163	163
As of 31 December 1999	**17,409**	**16**	**901**	**(12,051)**	**6,275**
Net profit for the year	-	-	-	3,908	3,908
Transfers (Note 2 *f*)	-	-	(80)	80	-
Revaluation of long-term investments (Note 9)	-	-	540	-	540
As of 31 December 2000	**17,409**	**16**	**1,361**	**(8,063)**	**10,723**

The accompanying notes are an integral part of the consolidated financial statements.

RIETUMU BANK GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999
(LVL '000)

	2000		1999	
	Group	**Bank**	**Group**	**Bank**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	4,473	3,908	163	170
Amortization and depreciation of intangible and tangible fixed assets	628	627	671	671
(Decrease)/increase in provisions for possible credit losses	(659)	(659)	2,750	2,750
Loss from revaluation of foreign currency positions	110	104	399	399
Gain from sale of fixed assets	-	-	(6)	(6)
(Increase)/decrease in prepayments and accrued income	(236)	(222)	609	628
Decrease/(increase) in other assets	2,142	4,446	(3,207)	(3,045)
Increase/(decrease) in deferred income and accrued expense	374	355	(190)	(213)
Increase/ (decrease) in other liabilities	38	38	(26)	(26)
Decrease in provisions for liabilities and charges	(25)	(25)	(18)	(18)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**6,845**	**8,572**	**1,145**	**1,310**
(Increase)/decrease in government bonds and other fixed income securities	(155)	(155)	607	607
Decrease/(increase) in equity shares and other non-fixed income securities	245	245	(694)	(694)
(Increase)/decrease in loans and advances to non-banking customers	(478)	852	3,709	3,709
(Increase)/decrease in term deposits due from other banks	(30,383)	(30,383)	8,246	8,246
(Decrease)/increase in term deposits due to other banks	(1,213)	(1,213)	3,703	3,703
Increase in deposits from the public	35,934	34,531	2,059	169
Increase in cash and cash equivalents from operating activities before taxation	**10,795**	**12,449**	**18,775**	**17,050**
Taxes paid	(25)	-	-	-
Net cash and cash equivalents acquired from operating activities	**10,770**	**12,449**	**18,775**	**17,050**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of intangible and tangible fixed assets	(1,157)	(1,125)	(637)	(637)
Fixed assets sold	30	30	40	40
Sale of equity investments in other entities and other long-term investments, net	81	73	16	5
Decrease in cash and cash equivalents from investing activities	**(1,046)**	**(1,022)**	**(581)**	**(592)**
Increase in cash and cash equivalents	**9,724**	**11,427**	**18,194**	**16,456**
Cash and cash equivalents at the beginning of the year	**34,155**	**32,419**	**16,360**	**16,360**
Loss from revaluation of foreign currency positions	(110)	(104)	(399)	(399)
Cash and cash equivalents at the end of the year	**43,769**	**43,742**	**34,155**	**32,419**

The accompanying notes are an integral part of the consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

The Parent Company of the Group- Rietumu Bank was established on 13 May 1992 and incorporated in the Republic of Latvia as a joint stock company, in which the shareholders have limited liability. The Group's main areas of operation include granting loans, transferring payments and exchanging foreign currencies both for its customers and for trading purposes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies all of which have been applied consistently (unless otherwise stated) throughout the years ended 31 December 2000 and 1999, is set out below:

a) Reporting currency

The accompanying consolidated financial statements are reported in thousands of lats (LVL 000's), unless otherwise stated.

b) Basis of accounting

These consolidated financial statements are based on the statutory records, which are maintained under the historical cost convention, modified for revaluation as disclosed below, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards (IAS) and general practices within the banking industry.

c*) Basis of consolidation*

As of 31 December 2000, the Bank had investments in subsidiary – "RB Securities Limited", a joint stock company engaged in the financial services. (see Note 9).

The revaluation increase of the investments in "RB Securities Ltd", in which the Bank holds 99% interest and voting power, is credited to the shareholders' equity as revaluation surplus. Revaluation decrease is recognized as an expense. The financial statements of the subsidiary are consolidated in the Group's financial statements on a line by line basis by adding together items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions including interest income and expense as well as unrealized profits and loss resulting from intra-group transactions are eliminated in the Group's financial statements.

As of February 2001 the Bank sold its investments in "Alve Finance AG". The respective investments have been recorded in the Bank's financial statements at cost less any specific provisions deemed appropriate at the reporting date. The Bank's Management considers the subsidiary to be insignificant for the purposes of the Group's financial statements presentation, hence no consolidation of financial statements of these subsidiaries was performed.

d) Loans and advances to non-banking customers

Loans and advances to non-banking customers represent the outstanding principal balance less provisions for loans and advances as presented in Note 6.

For the purposes of these consolidated financial statements, loans and advances to non-banking customers include regular loans, finance lease receivables, advances relating to factoring agreements, credit card balances, as well as any other outstanding credit balances from non-banking customers of the Bank.

e) Investments

Investments are classified upon acquisition as trading securities (trading portfolio) or investment securities (the Bank's portfolio). As of 31 December 2000, in compliance with the Bank's development plan, only the Bank's portfolio contained investment securities.

Trading securities

Trading securities are marketable securities that are acquired and sold with the intention of gaining profit on their short-term price fluctuation. Trading securities are stated at market value.

Investment securities

Investment securities are long-term investments acquired with the intention of holding them until their maturity or more than 12 months.

f) Fixed assets

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 monthly instalments over the expected useful lives which have been estimated by the management as follows:

Buildings and constructions	50 years
Leasehold improvements	10 years
Office equipment	4-5 years
Vehicles	5 years
Other fixed assets	2 to 5 years

Buildings are carried at revaluation amounts less depreciation. Revaluation is made on the basis of valuations performed by independent external valuers. The resulting gain or loss is credited or debited to the revaluation reserve, which is part of equity. The revaluation surplus annually is transferred to retained earnings when the surplus is realisied. The transfer from revaluation surplus to retained earnings is not made through the income statement but via an intra-reserve transfer. Realisation of the entire surplus occurs on disposal or retirement , when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Realiasation of the revaluation surplus occurs through the use of the asset. The amount of the surplus which is realisied through use of the asset is calculated as the difference between depreciation calculated on historical cost of the asset and the depreciation calculated on the revalued amount. This difference is transferred from the revaluation surplus to the retained earnings in each period.
Leasehold improvements are capitalized over the period of lease.

Fixed assets held for sale are not depreciated and recorded in the financial statements as “Other assets”.

g) Managed assets and liabilities

Funds managed by the Bank on behalf of its customers, funds and other institutions are not regarded as assets of the Bank and, therefore, are not included in its balance sheet.

h) Income and expense recognition

All significant interest income and expense items are recognized on an accrual basis. No interest income is recognized on non-performing loans and advances (see paragraph *i*) in which interest is unlikely to be collected. The recognition of interest income ceases when the payment of interest or principal is in doubt and accrued interest is automatically provided for.

Commissions and fees, as well as any other major income and expense items are credited and/ or charged to the statement of income as earned/ incurred.

i) Provisions for possible credit losses

Non-performing loans and advances to customers including banking institutions are defined as loans and other credit balances in which contractually due interest or principal is 30 days or more overdue, or the Management otherwise believe that the contractual interest or principal due will not be collected.

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 borrowers’ ability to repay their loans. The management has considered both specific and general risks when determining the balance of provisions for loan losses. Provisions for possible credit losses as of the balance sheet date are established in accordance with International Accounting Standards and represent the estimated amounts of probable loss that have been incurred at the balance sheet date. The value of the collateral held against the loan is based on its estimated realizable value and is taken into account when estimating the required provision.

The provisions for possible credit losses are composed of the estimated figures for the following:

- specific provisions for probable losses on loans identified as high risk,
- specific provisions for other non-performing loans,
- general provisions for loans

(LVL '000)

The level of the provisions is based on the estimates of known relevant factors affecting the loan collectability and collateral values. The ultimate loss, however, may vary significantly from the current estimates. These estimates are reviewed on a monthly basis, and, as adjustments become necessary, they are reported in the income statement in the period in which they become known. The management has made its best estimate of loss and believe that the loss estimate presented in the accompanying consolidated financial statements are reasonable in the light of the available information and do not vary materially from the guidelines established by the Bank of Latvia regarding provisions for possible credit losses.

j) Foreign currency translation

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. Any gain or loss resulting from the change in rates of exchange subsequent to the date of transaction is included in the statement of income as a profit or loss from the revaluation of foreign currency positions. Monetary assets and liabilities, including outstanding commitments to deliver or acquire foreign currencies under spot exchange transactions, are translated at the official rate of exchange at the balance sheet date.

The principal rates of exchange (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet as of 31 December 2000 and 31 December 1999 were as follows:

31.12.2000		**31.12.1999**	
USD	0.613	USD	0.583
DEM	0.291	DEM	0.300
EUR	0.570	EUR	0.587
RUB	0.022	RUB	0.021
UAH	0.113	UAH	0.106

k) Corporate income tax

According to Latvian tax legislation the Bank's corporate income is taxed at an effective statutory rate of 12.5%. The Bank is entitled to a tax exemption due to foreign investors owning more than 50% of the issued share capital. The tax exemption resulted in no corporate income tax payable for the first 3 years of the exemption, and in the 5 following years the corporate income tax is payable at 50% of the standard rate. The Bank may only benefit from the partial tax exemption as long as foreign investors maintain at least 50% shareholding in the Bank throughout the taxation period.

Deferred taxation is provided for on all temporary differences arising between the accounting and taxation treatment of income and expenses according to the accounting and taxation legislation. The deferred taxation liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of amortization/ depreciation on intangible and tangible fixed assets and tax losses carried forward. Where an overall deferred taxation asset arises, this is only recognized in the financial statements where its recoverability is foreseen with reasonable certainty.

l) 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 includes forward contracts. These financial instruments involve, to varying degrees, elements of currency risk. Gains and loss from such contracts are recognized in the profit and loss account at the official rate of exchange published by the Bank of Latvia.

m) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the following :

+ Cash and balances with central banks;
+ Demand deposits due from other banks;
- Demand deposits due to other banks.

n) Regulatory requirements

The Bank is subject to the regulatory requirements of the Bank of Latvia. The major requirements relate to credit risk concentration, capital adequacy, liquidity and foreign currency exposure.

(LVL '000)

4 CASH AND DEPOSITS WITH THE BANK OF LATVIA

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Cash	2,198	2,198	2,312	2,312
Deposits with the Bank of Latvia	5,341	5,341	3,763	3,763
Total cash and deposits with the Bank of Latvia	**7,539**	**7,539**	**6,075**	**6,075**

Deposits with the Bank of Latvia represent the balance outstanding on the non-interest bearing correspondent account with the Bank of Latvia in LVL.

In accordance with the Bank of Latvia's regulations, after 1 December 2000, the Bank is required to maintain a compulsory reserve set at 6% (7% before) of the average monthly balance (calculated at four intervals during the month) of the following items:
+ deposits from the public
- less liabilities against credit institutions
- less balance due to the State Treasury on its consolidated account with the Bank
+ bonds and other debt securities issued by the Bank.

The compulsory reserve is compared to the Bank’s average monthly cash and correspondent account balance in LVL. The total of the Bank’s average cash and correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

5 BALANCES DUE FROM CREDIT INSTITUTIONS, NET

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Demand placements with:				
Latvian banks	49	49	-	-
OECD credit institutions	30,395	30,395	24,761	24,761
Non-OECD credit institutions	5,924	5,897	3,506	1,770
Gross demand placements	**36,368**	**36,341**	**28,267**	**26,531**
Provision for possible credit losses (see Note 25)	(66)	(66)	(15)	(15)
Total demand placements, net	**36,302**	**36,275**	**28,252**	**26,516**
Term placements with:				
Latvian banks	-	-	117	117
OECD credit institutions	30,935	30,935	3,500	3,500
Non-OECD credit institutions	3,065	3,065	-	-
Total term placements	**34,000**	**34,000**	**3,617**	**3,617**
Total balances due from credit institutions, net	**70,302**	**70,275**	**31,869**	**30,133**

During 2000, the average interest rate received on balances due from credit institutions was 6.0% per annum (during 1999 - 4.3%).

The largest balances due from credit institutions as of 31 December 2000 were as follows:

	31 December 2000 LVL'000 Group	**31 December 2000 LVL'000 Bank**	**31 December 1999 LVL'000 Group**	**31 December 1999 LVL'000 Bank**
Vereins und Westbank (Hamburg)	34,329	34,329	-	-
Unibank (Denmark)	12,294	12,294	-	-
Republic National Bank (USA)	10,935	10,935	7,303	7,303
Bankers Trust	2,010	2,010	7,925	7,925
Russian Saving Bank	2,149	2,149	1,189	1,189
Alfa Bank (Russia)	1,598	1,598	-	-
Citibank (USA)	364	364	367	367
ABN AMRO New York (USA)	98	98	1,168	1,168
The Bank of New York (USA)	-	-	7,169	7,169
Total	**63,777**	**63,777**	**25,121**	**25,121**

6 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS, NET

Loans and advances to non-banking customers are comprised of the following:

	31 December 2000 Group	**31 December 2000 Bank**	**31 December 1999 Group**	**31 December 1999 Bank**
Private companies	34,244	32,962	40,114	40,114
Loans to private individuals	2,026	1,978	1,300	1,300
Total gross loans and advances to non-banking customers	**36,270**	**34,940**	**41,414**	**41,414**
Specific provisions for possible credit losses (see Note 25)	(492)	(492)	(5,901)	(5,901)
General provisions for possible credit losses (see Note 25)	(523)	(523)	(1,395)	(1,395)
Loans and advances to non-banking customers, net	**35,255**	**33,925**	**34,118**	**34,118**
Loans and advances secured by cash deposits	(8,981)	(8,981)	(10,137)	(10,137)
Loans and advances subject to credit risk, net	**26,274**	**24,944**	**23,981**	**23,981**

In 2000, the weighted average interest rates for loans was 9% (1999:13%) and 8.7% (1999: 11%) for short-term and long-term loans, respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients for more than 25% of its equity. As of 31 December 2000 the Bank was not in compliance with this requirement. Subsequent to 31 December 2000 the Bank has corrected this deviation.

Provision of LVL 209 thousand (1999 LVL 7,296 thousand) has been made by the Group for potential losses on loans. In establishing the provision for these loans, management has considered risk of future default on the above securities and other collateral available from clients. Management believes that current level of provisions is adequate.

The amount of loans, for which interest is not accrued, is LVL 4,816 thousand as of 31 December 2000 (1999: LVL 15,322 thousand).

The loan maturity analysis is as follows:

	Up to 1 months LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 to 12 months LVL'000	1 to 5 years LVL'000	Total LVL'000
31 December 2000						
Commercial & industrial companies	8,194	3,487	3,824	2,917	14,845	33,267
Individuals	305	126	161	342	1,054	1,988
Total	**8,499**	**3,613**	**3,985**	**3,259**	**15,899**	**35,255**
31 December 1999						
Commercial & industrial companies	6,767	3,779	14,570	1,640	6,218	32,974
Individuals	131	4	131	441	437	1,144
Total	**6,898**	**3,783**	**14,701**	**2,081**	**6,655**	**34,118**

The following table presents information relating to loans by major geographic areas:

	31 December 2000 LVL'000	31 December 1999 LVL'000
OECD countries	16,297	14,901
Latvia	15,388	9,641
Non-OECD countries	3,570	9,576
Total	**35,255**	**34,118**

7 GOVERNMENT BONDS AND OTHER FIXED INCOME SECURITIES, NET

Securities that the Group has the intent to hold to maturity are classified as investment and are carried at amortised cost.

Government bonds and other fixed income securities are composed as follows:

	31 December 2000 LVL'000 Group	**31 December 1999 LVL'000 Group**
Russian government bonds	1,348	8,303
Ukrainian government bonds	-	916
United States government bonds	22,496	23,580
Argentina government bonds	1,862	1,778
US corporate bonds	4,124	-
Great Britain corporate bonds	618	-
Fixed income securities of other issuers	-	1
Total	**30,448**	**34,578**
Russian USD denominated eurobonds	*1,348*	*495*
Ministry of Finance obligations (Russia)	-	*3,647*
GKO obligations (Russia)	-	*4,161*
Revaluation of Russian government Bonds	(27)	(4,010)
Revaluation of Ukrainian government Bonds	-	(302)
Total	**30,421**	**30,266**

Investment securities comprising US government bonds in the amount of LVL 18,997 thousand (1999: LVL 21,939 thousand) have been transferred under sale and repurchase (repo) agreements to a United States based financial institution. See also Note 15.

Considering the risk of default that relates to all liabilities of the Russian government, management has established provision at a certain percentage of the nominal value of these securities by each type of securities. Management believes that their estimates are reasonable and are based on all available information. The net value of these securities is similar to their market value as at 31 December 2000.

Management do not anticipate a need to sell any of the Group's investment securities before maturity for liquidity or other operating purposes.

Maturity analysis of government bonds and other fixed income securities is as follows:

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 to 12 months LVL'000	Greater than 1 year LVL'000	Over-due	Total LVL'000
31 December 2000							
Russian government bonds	-	-	-	-	1,321	-	1,321
United States government bonds	-	-	-	-	22,496	-	22,496
Argentina government bonds	-	-	-	-	1,862	-	1,862
US corporate bonds	-	-	-	616	3,508	-	4,124
Great Britain corporate government bonds	-	-	-	-	618	-	618
Total	**-**	**-**	**-**	**616**	**29,805**	**-**	**30,421**
31 December 1999							
Russian government bonds	-	11	-	272	2,323	1,687	4,293
Ukrainian government bonds	-	-	-	614	-	-	614
United States government bonds	-	-	-	-	23,580	-	23,580
Argentina government bonds	-	-	-	-	1,778	-	1,778
Fixed income securities of other issuer	-	-	-	-	-	1	1
Total	**-**	**11**	**-**	**886**	**27,681**	**1,688**	**30,266**

8 SHARES AND OTHER NON-FIXED INCOME SECURITIES, NET

Investments in liquid shares listed on Moscow stock exchange are classified as available for sale and are carried at market value. Investments in non-liquid shares listed on Moscow and Riga stock exchange and other non-fixed income securities are stated at cost.

Equity shares and other non-fixed income securities are composed as follows:

	31 December 2000 LVL'000 Group	31 December 2000 LVL'000 Bank	31 December 1999 LVL'000 Group	31 December 1999 LVL'000 Bank
Trading portfolio				
Shares listed on the Moscow stock exchange	*271*	*271*	*792*	*792*
Shares listed on the Riga stock exchange	-	-	*98*	*98*
Total trading portfolio	271	271	890	890
Securities held for investment purposes	439	439	65	65
Total	**710**	**710**	**955**	**955**

(LVL '000)

9 INVESTMENTS IN SUBSIDIARIES, NET

As of 31 December 2000 and 1999, the Bank's investments in subsidiaries are comprised of the following:

Company	Industry	Legal address	Amount of ownership (%)	Amount of investment	Amount of ownership (%)	Amount of investment
			31 December 2000		31 December 1999	
SIA Maiznica Flora	Food products	Vangazu 20, Riga, Latvia	12%	4	23%	7
Total investments in subsidiaries				**4**		**7**

The Bank anticipates to sell investment in SIA "Maiznica Flora" during 2001 at cost.

Investments in business ventures are composed as follows:

Company	Industry	Legal address	Amount of ownership (%)	Amount of investment	Amount of ownership (%)	Amount of investment
			31 December 2000		31 December 1999	
RB Securities Ltd	Financial services	3 Chrysanthou Mylona street, Limassol, Cyprus	99.99%	12	99.99%	12
Revaluation				540		(6)
Alve Finance Company	Advisory services	Zweierstrasse, 18 CH-8004 Zurich, Switzerland	-	-	84%	83
Total investments in subsidiaries				**552**		**89**

RB Securities is consolidated in the Group accounts. The Group sold significant percentage of shareholding in Alve Finance during 2000 at its cost value.

	RB securities Ltd	Alve Finance AG	Rietumu consult	SIA "Maiznīca Flora"	Total
Investment value as of 1 January 1999	**-**	**89**	**1**	**7**	**97**
Investment	12	-	-	-	12
Revaluation	(7)	(12)	-	-	(19)
Investment value as of 31 December 1999	**5**	**77**	**1**	**7**	**90**
Investment	-	-	-	-	-
Sales	-	(70)		(3)	(73)
Revaluation	547	-	-	-	547
Foreign currency revaluation	-	(7)	(1)	-	(8)
Net investments as of 31 December 2000	**552**	**-**	**-**	**4**	**556**

10 FIXED ASSETS, NET

Fixed assets of the Group are composed as follows:

(LVL'000)	Buildings	Other fixed assets	Vehicles	Office equipment	Leasehold refurbish-ments	Total Fixed Assets
Historical cost						
31 December 1998	2,992	356	499	1,890	382	6,119
Additions	2	304	-	325	6	637
Disposals	-	-	(56)	(86)	-	(142)
31 December 1999	**2,994**	**660**	**443**	**2,129**	**388**	**6,614**
Additions	-	238	253	666	-	1,157
Disposals	-	(20)	(17)	-	-	(37)
31 December 2000	**2,994**	**878**	**679**	**2,795**	**388**	**7,734**
Accumulated depreciation						
31 December 1998	131	-	217	677	215	1,240
Charge for the period	191	-	80	352	48	671
Disposals	-	-	(20)	(84)	-	(104)
31 December 1999	**322**	**-**	**277**	**945**	**263**	**1,807**
Charge for the period	60	-	83	435	50	628
Disposals	-	-	(7)	-	-	(7)
31 December 2000	**382**	**-**	**353**	**1,380**	**313**	**2,428**
Net book value						
31 December 1999	**2,672**	**660**	**166**	**1,184**	**125**	**4,807**
31 December 2000	**2,612**	**878**	**326**	**1,415**	**75**	**5,306**

The assets stated above are held for the Group's own use.

11 OTHER ASSETS, NET

Other assets are comprised of the following:

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Due from the brokers	2,497	30	4,507	4,415
American Express security deposit	285	285	271	271
Europay International deposit for credit cards	175	175	70	70
Traveller cheques	64	64	60	60
Other assets	42	42	119	49
Advances for goods and services	7	7	34	34
Cash advances to employees	2	2	4	4
Due from State Revenue Service	-	-	289	289
	3,072	**605**	**5,354**	**5,192**
Provision for other assets (Note 25)	(2)	(2)	(142)	(142)
Total	**3,070**	**603**	**5,212**	**5,050**

12 PREPAYMENTS AND ACCRUED INCOME, NET

Prepayments and accrued income are comprised of the following:

	31 December 2000 LVL'000 Group	31 December 2000 LVL'000 Bank	31 December 1999 LVL'000 Group	31 December 1999 LVL'000 Bank
Accrued interest income from loans	296	274	191	191
Accrued interest income on balances due from banks	128	128	22	22
Accrued income from forward deals	-	-	10	10
Prepaid expenses	70	59	35	16
Total	**494**	**461**	**258**	**239**

13 MANAGED ASSETS

The structure of managed assets outstanding as of 31 December 2000 and 1999 were as follows:

	31 December 2000 LVL'000 Group	31 December 2000 LVL'000 Bank	31 December 1999 LVL'000 Group	31 December 1999 LVL'000 Bank
Deposit in Standard Bank (London)	25,498	25,498	-	-
Russian government bonds	17,743	8,563	17,309	17,259
Shares listed on the Russian stock exchange	6,665	542	10,521	8,254
Brazilian government bonds	661	-	-	-
United States government bonds	607	-	893	836
Argentina government bonds	571	-	-	-
Turkey government bonds	555	-	-	-
United States corporate bonds	363	4	298	88
Ukrainian government bonds	321	321	1,241	1,223
Shares listed on the New York stock exchange	294	26	286	180
Mutual funds	132	132	287	-
Privatisation certificates	122	122	220	162
Shares listed on the Riga stock exchange	79	-	46	-
Shares listed on the German stock exchange	15	12	7	7
Shares listed on the Greece stock exchange	-	-	45	45
Total	**53,626**	**35,220**	**31,153**	**28,054**

Managed assets represent securities and other assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such securities. The Group is not subject to interest, credit and currency risk with respect of these securities in accordance with the agreements with customers. The managed assets are held in the balance sheet of the Group in accordance with Bank of Latvia requirements. All securities are stated at their market value.

14 BALANCES DUE TO CREDIT INSTITUTIONS

Balances due to credit institutions are comprised of the following:

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Balances due to credit institutions registered in Latvia	500	500	-	-
Balances due to credit institutions registered in non-OECD countries	3,907	3,907	5,720	5,720
Total	**4,407**	**4,407**	**5,720**	**5,720**

Deposits of LVL 2,829 thousand (1999: LVL 3,494 thousand) are pledged as a security for loans issued by the Bank. See Note 6.

The largest amounts due to banks were as follows:

	31 December 2000 LVL'000 Group	31 December 2000 LVL'000 Bank	31 December 1999 LVL'000 Group	31 December 1999 LVL'000 Bank
Avtozazbank Bank (Ukraine)	1,006	1,006	3,799	3,799
Real bank (Ukraine)	1,839	1,839	1,467	1,467
Minskkomplex Bank (Belarus)	622	622	-	-
Total	**3,467**	**3,467**	**5,266**	**5,266**

The maturity profile of balances due to credit institutions were as follows:

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Demand deposits	72	72	172	172
Term deposits	4,335	4,335	5,548	5,548
Total	**4,407**	**4,407**	**5,720**	**5,720**

15 DEPOSITS FROM THE PUBLIC

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Demand deposits from				
Municipality	18	18	39	39
State enterprises	54	54	64	64
Private companies	4,241	4,241	5,553	5,553
Individuals	3,345	3,345	1,818	1,818
Private companies non-residents	86,899	85,018	60,187	58,297
Individuals non-residents	8,771	8,769	6,173	6,173
Total demand deposits	**103,328**	**101,445**	**73,834**	**71,944**
Term deposits				
Municipality	4,000	4,000	1,500	1,500
Private companies	805	805	178	178
Individuals	3,875	3,875	654	654
Private companies non-residents	22,053	20,793	23,207	23,207
Individuals non-residents	3,036	2,886	1,790	1,790
Total term deposits	**33,769**	**32,359**	**27,329**	**27,329**
Total deposits from the public	**137,097**	**133,804**	**101,163**	**99,273**

Deposits of LVL 6,152 thousand (1999 : 6,643 thousand) are pledged as a security for loans issued by the Bank. See Note 6.

LVL 16,764 thousand (1999: 22,898 thousand) has been borrowed from a United States private financial institution under repo agreements for the sale of investment securities. See Note 7.

The maturity profile of deposits from the public was as follows:

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 to 12 months LVL'000	Greater than 1 year LVL'000	Total LVL'000
31 December 2000						
Municipality	-	-	4,000	-	-	4,000
Private companies	666	119	-	-	20	805
Individuals	1,970	552	465	767	121	3,875
Non-residents	15,073	4,137	2,350	1,979	1,550	25,089
Total	**17,709**	**4,808**	**6,815**	**2,746**	**1,691**	**33,769**
31 December 1999						
Municipality	1,500	-	-	-	-	1,500
Private companies	8	-	-	170	-	178
Individuals	165	154	136	79	120	654
Non-residents	5,816	16,174	937	1,430	640	24,997
Total	**7,489**	**16,328**	**1,073**	**1,679**	**760**	**27,329**

In 2000 the weighted average interest rate on term deposits was 5.15% and 6.3% (1999: 6.55% and 6.55%) for short and long-term deposits respectively.

16 DEFERRED INCOME AND ACCRUED EXPENSE

	31 December 2000 LVL'000 Group	31 December 2000 LVL'000 Bank	31 December 1999 LVL'000 Group	31 December 1999 LVL'000 Bank
Accrued interest expense on deposits	731	721	280	280
Other	34	2	111	88
Total	**765**	**723**	**391**	**368**

17 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Vacation pay reserve	-	-	25	25
Other provisions for liabilities and charges	34	34	34	34
Total	**34**	**34**	**59**	**59**

18 PAID-IN SHARE CAPITAL

As of 31 December 1999 and 31 December 2000, the issued share capital was 17,408,750 shares with a par value of LVL 1 per share. All shares are outstanding and fully paid and distributed as follows:

	31 December 2000	31 December 1999
Companies non-residents	1,974	17,374
Members of the Board	8	8
Private persons	15,427	27
Total	**17,409**	**17,409**

In March 2000 Orchard Finance Limited sold shares to the number of new shareholders.
The largest shareholders of the Bank as of 31 December 2000:

	31 December 2000 Paid capital LVL' 000	31 December 2000 percentage holding
Tony Levin	6,731	38.66
Leonid Estrekin	5,255	30.19
Arkady Suharenko	2,634	15.13
Other	2,789	16.02
Total	**17,409**	**100.00**

The Members of the Board hold non-voting shares.

19 INTEREST INCOME

Interest income is comprised of the following:

	2000 LVL'000 Group	2000 LVL'000 Bank	1999 LVL'000 Group	1999 LVL'000 Bank
On balances due from credit institutions	2,045	2,045	541	541
On loans granted to customers	2,964	2,681	3,342	3,337
On debt securities	1,569	1,569	1,947	1,947
Other	575	539	119	119
Total	**7,153**	**6,834**	**5,949**	**5,944**

20 INTEREST EXPENSE

Interest expense is comprised of the following:

	2000 LVL'000 Group	2000 LVL'000 Bank	1999 LVL'000 Group	1999 LVL'000 Bank
On deposits from the public	2,065	1,835	1,426	1,426
On balances due to credit institutions	641	641	492	492
Other	70	70	102	102
Total	**2,776**	**2,546**	**2,020**	**2,020**

21 COMMISSION AND FEE INCOME

Commission and fee income is comprised of the following:

	2000 LVL'000 Group	2000 LVL'000 Bank	1999 LVL'000 Group	1999 LVL'000 Bank
Money transfers	2,505	2,505	1,809	1,809
Cash withdrawals	366	366	318	318
Home banking	277	277	205	205
Commission income from credit cards	265	265	240	240
Revenue from customer asset management	209	73	112	112
Account opening	138	138	99	99
Commission income from loans	91	91	54	54
Commission income from foreign currency exchange	-	-	7	7
Other	489	397	285	223
Total	**4,340**	**4,112**	**3,129**	**3,067**

22 COMMISSION AND FEE EXPENSE

Commission and fee expense is comprised of the following:

	2000 LVL'000 Group	2000 LVL'000 Bank	1999 LVL'000 Group	1999 LVL'000 Bank
Banks	322	322	222	222
Brokerage commission	132	62	27	27
Cash withdrawals	36	36	32	32
Credit card expenses	16	16	13	13
Other commission	25	20	50	48
Total	**531**	**456**	**344**	**342**

23 NET GAIN FROM TRADING WITH SECURITIES AND FOREIGN CURRENCIES

	2000 Group	2000 Bank	1999 Group	1999 Bank
Foreign exchange (loss)/profit from conversion of Russian Rouble	(191)	(194)	784	784
Foreign exchange profit from conversion of Belorussian Rouble	14	14	14	14
Foreign exchange profit from conversion of Kazakhstan Tenge	10	10	1	1
Foreign exchange profit from conversion of Ukrainian Hryvna	46	46	67	67
Foreign exchange profit from conversion of OECD country currencies	409	409	337	337
Loss from foreign currency revaluation	(110)	(104)	(399)	(399)
Profit from deals with securities	939	529	938	760
(Loss)/profit from revaluation of securities	(142)	(142)	50	50
(Loss)/profit from deals with other financial instruments	(513)	(513)	14	14
Other	56	35	110	103
Total net gain from trading with securities and foreign currencies	**518**	**90**	**1,916**	**1,731**

(LVL '000)

24 ADMINISTRATIVE EXPENSES

Salaries, wages and related social security contributions represent the basic remuneration of the employees, social security contributions as well as other remuneration. During the years ended 31 December 2000 and 1999, the Bank employed on average 301 and 288 employees, respectively.

Administrative expense is comprised of the following:

	2000 Group	2000 Bank	1999 Group	1999 Bank
Salaries to Board of Directors and Council	372	372	351	351
Staff salaries	1,266	1,251	1,171	1,123
Social tax	373	373	351	351
Depreciation	628	627	671	671
Communications	558	546	533	519
Professional fees	458	455	813	672
Advertising and marketing	81	81	118	118
Charitable donations	110	110	79	79
Utilities and maintenance	60	60	61	43
Representation	67	67	58	58
Travel	136	136	95	95
Rent	183	164	74	52
Stationary	24	24	26	26
Training	14	14	9	9
Fines	5	5	87	87
Security	3	3	4	4
Property tax	43	43	97	97
Other	606	526	376	376
Total	**4,987**	**4,857**	**4,974**	**4,731**

25 PROVISIONS FOR POSSIBLE CREDIT LOSSES

The following table reflects the total of the Bank's provisions for possible credit losses at the end of the reporting years:

	Loans	Other	Total
Provisions as of 31 December 1998	**4,582**	**86**	**4,668**
Decrease of provisions	(1,649)	(72)	(1,721)
Net of provisions charged to the profit and loss statement	4,296	175	4,471
Currency revaluation	67	2	69
Provisions as of 31 December 1999	**7,296**	**191**	**7,487**
Decrease of provisions	(4,707)	(174)	(4,881)
Net of provisions charged to the profit and loss statement	4,048	51	4,099
Written off assets	(5,884)	-	(5,884)
Currency revaluation	262	-	262
Provisions as of 31 December 2000	**1,015**	**68**	**1,083**

26 TAXATION

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate for the Parent as follows:

	2000 LVL'000	1999 LVL'000
Profit before tax	3,908	170
Prima facie tax calculated at a tax rate of 25% [1999: 25%]	977	43
Income not assessable for tax	(3,471)	(1)
Increase in tax non-deductible specific provisions on loan losses	-	425
Tax non-deductible expenses	284	183
Change in deferred tax asset, which is not recognised	1,564	(650)
Income tax expense	-	-

As a consequence of foreign ownership of at least 50%, the Bank is eligible for a 50% holiday with respect to income tax for a period of five years from 1 January 1997, subject to maintaining the percentage of foreign ownership above 50%.

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 25% (1999: 25%).

Deferred income tax assets and liabilities are attributable to the following items:

	2000 LVL'000	1999 LVL'000
Accelerated tax depreciation	(432)	(399)
Tax non-deductible expense	71	46
General provision on loan losses	(868)	349
Tax loss carried forward	1,527	1,866
Deferred tax asset, which is not recognised	(298)	(1,862)
Net deferred income tax asset	-	-

(LVL '000)

27 MEMORANDUM ITEMS

Memorandum items are comprised of the following:

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Contingent liabilities				
Outstanding guarantees	841	841	713	713
Credit commitments	337	337	269	269
Spot exchange receivable	(1,656)	(1,656)	(1,010)	(1,010)
Spot exchange payable	1,675	1,675	1,000	1,000
Total foreign exchange transactions, net	**19**	**19**	**(10)**	**(10)**
Total	**1,197**	**1,197**	**972**	**972**

As of 31 December 2000 there was 17 outstanding foreign exchange spot agreements (1999:1).

Legal Proceedings. As of 31 December 2000 there were 5 legal proceedings outstanding against the Group. Total amount disputed in these proceedings is LVL 178 thousands. Provision has been made for claims where management on the basis of professional advice to the Group, considers that it is likely that a loss may eventuate. (1999: five outstanding legal proceedings against the Bank).

Capital commitments. At 31 December 2000 and 1999 the Group had no capital commitments.

Credit related commitments. The primary purpose of credit commitments issued to customers is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

28 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2000 Group	31 December 2000 Bank	31 December 1999 Group	31 December 1999 Bank
Cash	2,198	2,198	2,312	2,312
Balances due from the Bank of Latvia	5,341	5,341	3,763	3,763
Demand deposits due from other banks	36,302	36,275	28,252	26,516
(Demand deposits due to other banks)	(72)	(72)	(172)	(172)
Total	**43,769**	**43,742**	**34,155**	**32,419**

29 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have significant influence over the Bank, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies.
Loans and advances issued to related parties were as follows:

	31 December 2000 Amount LVL'000	31 December 1999 Amount LVL'000
Loans:		
Loans at the beginning of year	78	58
Loans to management and directors issued during year	250	29
Transfers	(30)	-
Loan repayment during the year	(59)	(9)
Loans to management as at end of year	239	78
Interest income earned	12	5
Deposits		
Deposits at the beginning of year	1,127	-
Deposits received during year	1,891	1,127
Deposits repaid during the year	(1,008)	-
Deposits at the end of year	2,010	1,127
Interest expense on deposits	4	1
Guarantees and credit lines issued by the Group for management and directors	126	29

No provisions have been recognised in respect of loans or guarantees given to related parties (1999: nil).

As of 31 December 2000, the Bank was in compliance with the regulations under the Law On Credit Institutions requiring that the total of non-zero risk credit exposures to related parties may not exceed 15% of the Bank's equity, as defined in Note 31.

INTERGROUP TRANSACTIONS

Assets/liabilities	**RB Securities Ltd LVL'000**	**Rietumu bank LVL'000**
Due from banks	237	-
Customer accounts	-	237
Due to banks	486	-
Loans	-	460
Other assets	-	26
Interest income	7	10
Interest (expense)	(10)	(7)
Commission income (expense)	(5)	5

(LVL '000)

30 FOREIGN EXCHANGE EXPOSURES

The following table provides analysis of the Bank's assets and liabilities by currency as of 31 December 2000:

	Assets	Liabilities	Outstanding guarantees and credit lines	Open position	Percent of share capital
USD	123,761	122,886	796	79	0.80%
RUB	5,674	5,112	-	562	5.66%
UAH	115	8	-	107	1.08%
EUR	2,986	3,047	-	(61)	(0.61%)
CHF	92	13	-	79	0.80%
Other (short)	-	1	-	(1)	(0.01%)
Other (long)	305	219	-	86	0.87%
Total	**132,933**	**131,286**	**796**	**913**	**9.19%**

Total short position	**-62**
Total long position	**913**
Total open position	**9.19%**
Capital requirement for foreign currency exchange risk	**71**

As of 31 December 2000, the Bank was in compliance with the Bank of Latvia's regulatory requirements requiring that open positions in any individual foreign currency may not exceed 10% of Bank's equity (see Note 31 for the definition of Bank's equity under the Bank of Latvia's guidelines), and that the total foreign currency open position may not exceed 20% of the Bank's equity.

31 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 exposures of the Bank.
Based on the requirements set forth by the Bank of Latvia in respect to share capitals of banks the Bank's share capital to be utilized in the capital adequacy ratio as of 31 December 2000 has been calculated as follows:

Tier 1	
- paid-in share capital	17,409
- reserve capital	16
- accumulated loss	(11,971)
- profit of the year 2000	3,908
Total Tier 1	**9,362**
70% of fixed assets revaluation reserve	**575**
Total Tier 2	**575**
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Bank of Latvia	**9,937**
Tier 2 Under the Basle Agreement	
Fixed assets revaluation reserve	821
55% of long-term equity securities revaluation reserve	297
Equity to be utilized for the capital adequacy calculation under the Basle Agreement	**10,480**

(LVL '000)

As of 31 December 2000, the Bank was in compliance with the Law On Latvian Credit Institutions and the requirements of the Bank of Latvia in respect to capital adequacy and the minimum equity level. The calculation of capital adequacy according to the Bank of Latvia's requirements is presented in the following table:

	Assets 31 December 2000	Risk weighting %	Risk weighted assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	7,539	0%	-
Balances due from governments and central banks within A zone countries	22,496	0%	-
Loans and advances secured by deposits	8,981	0%	-
Balances due from credit institutions within A zone countries	62,373	20%	12,475
Demand deposits with credit institutions within Latvia	49	20%	10
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	1,210	50%	605
Balances due from governments and central banks within B zone countries	3,183	100%	3,183
Balances due from credit institutions within B zone countries	8,896	100%	8,896
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	27,894	100%	27,894
Shares and other non-fixed income securities and investments in subsidiaries	1,266	100%	1,266
Fixed assets	5,275	100%	5,275
Other assets	604	100%	604
Total assets	**149,766**		**60,208**
Memorandum items			
Credit commitments	334	50%	167
Credit commitments with zero risk weighted	507	0%	-
Outstanding guarantees with zero risk weighted	78	0%	-
Outstanding guarantees with 100% risk weighted	259	100%	259
Total assets and memorandum items for capital adequacy			**60,634**
Capital requirement for credit risk of banking book			**6,063**
Capital requirement for foreign currency exchange risk			**71**
Capital charges covered by own funds			**3,803**
Capital adequacy ratio			**16.20%**

As of 31 December 2000 and 1999 the Bank's capital adequacy according to the Bank of Latvia's requirements was 16.20% and 12%, respectively. The Law On Credit Institutions and Bank of Latvia's requirements in respect of minimum capital adequacy are 10%.
A zone comprises countries which are full members of the OECD and which had not restructured their external debt during the last 5 years and which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.

(LVL '000)

The capital adequacy of the Bank under the Basle agreement as of 31 December 2000 is calculated as follows:

	Assets As of 31 December 2000	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	7,539	0%	-
Loans and advances secured by deposits	8,981	0%	-
Claims on OECD central governments and central banks	22,496	0%	-
Balances due from credit institutions within OECD area	62,373	20%	12,475
Balances due from credit institutions within non-OECD area	8,945	20%	1,789
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	1,210	50%	605
Claims on other borrowers, which are not credit institutions , central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	27,894	100%	27,894
Claims on central governments outside the OECD (unless denominated in national currency)	3,183	100%	3,183
Shares and other non-fixed income securities and investments in subsidiaries	1,266	100%	1,266
Fixed assets	5,275	100%	5,275
Other assets	604	100%	604
Total assets	**149,766**		**53,091**
Memorandum items			
Credit commitments	334	50%	167
Outstanding guarantees secured by deposits	507	0%	-
Other outstanding guarantees	259	100%	259
Outstanding guarantees with zero risk weighted	78	0%	-
Total assets and memorandum items for capital adequacy			**53,517**
Capital requirement for credit risk of banking book			**5,324**
Capital requirement for foreign currency exchange risk			**91**
Total share capital for capital adequacy			**10,480**
Capital adequacy ratio			**19.25%**

The Bank’s international risk based capital adequacy as of 31 December 2000 and 1999 was 19.25% and 13%, respectively, which is above the minimum ratio of 8% recommended under the Basle agreement.

(LVL '000)

32 ASSETS, LIABILITIES AND SHAREHOLDER'S EQUITY BY MATURITY PROFILE

The table below allocates the Bank's assets, liabilities and shareholder's equity to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity profile based on the balances as of 31 December 2000 was the following:

	Up to 1 month	1 and 3 months	3 and 6 months	6 and 12 months	More than 1 year	More than 5 years and undated	Total
Assets							
Cash and deposits with the Bank of Latvia	7,539	-	-	-	-	-	7,539
Balances due from credit institutions, net	70,302	-	-	-	-	-	70,302
Loans and advances to non-banking customers, net	8,499	3,613	3,985	3,259	15,899	-	35,255
Government bonds and other fixed income securities, net	-	-	-	616	17,276	12,529	30,421
Shares and other non-fixed income securities, net	271	-	-	-	-	439	710
Investments in subsidiaries, net	-	-	4	-	-	-	4
Fixed assets, net	-	-	-	-	-	5,306	5,306
Other assets, net	3,070	-	-	-	-	-	3,070
Prepayments and accrued income, net	494	-	-	-	-	-	494
Total assets	**90,175**	**3,613**	**3,989**	**3,875**	**33,175**	**18,274**	**153,101**
Less prepaid expenses	**(70)**	**-**	**-**	**-**	**-**	**-**	**(70)**
Total assets for calculation of liquidity	**90,105**	**3,613**	**3,989**	**3,875**	**33,175**	**18,274**	**153,031**
Liabilities							
Balances due to credit institutions	2,200	-	2,207	-	-	-	4,407
Deposits from the public	121,037	4,808	6,815	2,746	1,691	-	137,097
Other liabilities	75	-	-	-	-	-	75
Deferred income and accrued expense	765	-	-	-	-	-	765
Provisions for liabilities and charges	-	-	34	-	-	-	34
Total shareholders' equity	-	-	-	-	-	10,723	10,723
Total liabilities and shareholders' equity	**124,077**	**4,808**	**9,056**	**2,746**	**1,691**	**10,723**	**153,101**
Net liquidity	**(33,972)**	**(1,195)**	**(5,067)**	**1,129**	**31,484**	**7,551**	**(70)**
Total liquidity	**(33,972)**	**(35,167)**	**(40,234)**	**(39,105)**	**(7,621)**	**(70)**	

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33 INTEREST RATE RISK ANALYSIS

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

Maturity profile of assets, liabilities and shareholders' equity of the Bank was as follows:

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	More than 1 year	More than 5 years and undated	Non-interest bearing	Total
Assets								
Cash and deposits with the Bank of Latvia	-	-	-	-	-	-	7,539	7,539
Balances due from credit institutions, net	67,098	-	-	-	-	-	3,204	70,302
Loans and advances to non-banking customers, net	8,353	3,613	3,985	3,259	11,678	-	4,367	35,255
Government bonds and other fixed income securities, net	-	-	-	616	17,276	12,529	-	30,421
Shares and other non-fixed income securities, net	-	-	-	-	-	-	710	710
Investments in subsidiaries, net	-	-	-	-	-	-	4	4
Fixed assets, net	-	-	-	-	-	-	5,306	5,306
Other assets, net	-	-	-	-	-	-	3,070	3,070
Prepayments and accrued income, net	-	-	-	-	-	-	494	494
Total assets	**75,451**	**3,613**	**3,985**	**3,875**	**28,954**	**12,529**	**24,694**	**153,101**
Liabilities								
Balances due to credit institutions	2,128	-	2,207	-	-	-	72	4,407
Deposits from the public	41,428	4,808	6,815	2,746	1,691	-	79,609	137,097
Other liabilities	-	-	-	-	-	-	75	75
Deferred income and accrued expense	-	-	-	-	-	-	765	765
Provisions for liabilities and charges	-	-	-	-	-	-	34	34
Total shareholders’ equity	-	-	-	-	-	-	10,723	10,723
Total liabilities and shareholders’ equity	**43,556**	**4,808**	**9,022**	**2,746**	**1,691**	**-**	**91,278**	**153,101**

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34 GEOGRAPHIC PROFILE OF BALANCE SHEET AND MEMORANDUM ITEMS

As of 31 December 2000, the geographic profile of the Bank's assets, liabilities and shareholders' equity and memorandum items was as follows:

	Assets	Liabilities and shareholders' equity	Memorandum items
Latvia	**27,697**	**21,132**	**763**
OECD states:			
USA	50,439	74,662	-
Great Britain	2,727	9,847	-
Germany	37,079	1,129	912
Other	18,543	1,974	-
Total OECD states	**108,788**	**87,612**	**912**
Non-OECD states:			
Russia	7,408	4,255	-
Belarus	188	2,255	-
Ukraine	115	3,013	-
Other	8,905	34,834	-
Total non-OECD states	**16,616**	**44,357**	**-**
Total	**153,101**	**153,101**	**1,675**

Memorandum items in respect of foreign currency transactions are distributed based on foreign exchange payable balances.

35 SUBSEQUENT EVENTS

On 23 February 2001 the Bank completed the acquisition of the 100% of shares of Saules Bank. The acquisition, which will be accounted for under the purchase method, will be financed principally through existing capital and the issuance of an additional 2.8 million LVL of shares in the Bank. During December 2000, the principal shareholders of the Bank entered into a letter of intent to sell approximately 56% of the outstanding share capital of the Bank to IslandsbankiFBA (ISFBA).

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