A/S RIETUMU BANKA

Consolidated and Bank Financial Statements
and Auditors' report
for the year ended 31 December 2001

MANAGEMENT COMMENTARY

The year 2001 was very positive for A/s Rietumu Banka 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 and the Group recorded a Net Profit for the year 2001 of Lats 6,3 m. This represents an increase in profitability for the Bank and the Group of Lats 1,9 m 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. 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 Group grew to Lats 314 m from Lats 153 m at the end of 2001, which represents an increase of 205 %. This is reflected in the level of Clients Deposits, which grew by 189 % to Lats 259 m as at 31 December 2001.

The Capital and Reserves stood at Lats 18,7 m at 31 December 2001 which is an increase of Lats 7,98 m (174%) 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 2001.

Strategic Developments.
On 23 February 2001, A/s Rietumu Banka purchased 100% of the shares of A/s Saules Banka, another Latvian bank. Saules Banka was very similar to Rietumu Banka with good profitability and a strong liquid financial position and this enhanced the profitability of Rietumu Banka Group. The purchase of Saules Banka increased the client base of Rietumu Group significantly. Saules Banka ceased to exit 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.

On 30 November 2001, Rietumu Banka signed an agreement with Misys PLC to purchase Equation banking software. Equation will replace the Bank's existing internally developed system. Equation will be implemented throughout the Bank during 2002 and the Bank plans to have the implementation completed in March 2003.

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

15 March 2002

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

The Council of Rietumu bank

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98 (16/03/01-16/03/04)
Arkady Syharenko	Deputy Council Chairman	15/04/98 (16/03/01 – 16/03/04)
Valentin Bluger	Member of the Council	15/04/98 (16/03/01 – 16/03/04)

The Board of Directors

Name	*Position*	*Date of appointment*
Michael Bourke	Chairman of the Board	11/12/98 (26/11/01 – 26/11/04)
Alexander Kalinovsky	First Deputy Chairman of the Board	11/12/98 (26/11/01 – 26/11/04)
Rolf Fuls	Deputy Chairman (Vice-president)	11/12/98 (26/11/01 – 26/11/04)
Natalia Fetisova	Member of the Board (Vice-president)	11/12/98 (26/11/01 –26/11/04)
Yevgeny Shikhman	Member of the Board (Vice-president)	11/12/98 (26/11/01 –26/11/04)
Elena Popova	Member of the Board (Vice-president)	16/11/00 (26/11/01 – 26/11/04)
Dmitry Pyshkin	Member of the Board (Vice-president)	10/05/01 (26/11/01 – 26/11/04)
Roman Bichkovich	Member of the Board (Vice-president)	10/05/01 (26/11/01 –26/11/04)
Ugis Latsons	Member of the Board (Vice-president)	10/05/01-26/11/01

There were no other changes in the Board of Directors of the Bank during the period beginning 31 December 2001 through to the date of the signing of these financial statements.

The Management of A/s Rietumu Banka (the Bank) are responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated financial statements on pages 7 to 36 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2001 and the results of its operations and cash flows for the year ended 31 December 2001 as well as the financial position of the Bank as of 31 December 2001 and the results of its operations and cash flows for the year ended 31 December 2001.

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 A/s Rietumu Banka 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 Finance and Capital Markets Commission 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 Board of Directors

15 March 2002

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AUDITORS' REPORT

To the shareholders of A/s Rietumu Banka

We have audited the accompanying financial statements of A/s Rietumu Banka ("the Bank") and financial statements of A/s Rietumu Banka and its subsidiaries (together "the Group") for the year ended 31 December 2001 set out on pages 7 to 36. These financial statements are the responsibility of the Bank's management, as referred to on page 5. 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 financial statements give a true and fair view of the financial position of the Bank and the Group as of 31 December 2001 and of the results of their operations and their cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers SIA

15 March 2002

BALANCE SHEET AND MEMORANDUM ITEMS AS AT 31 DECEMBER 2001

	Notes	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
ASSETS					
Cash and balances with central banks	3	15,226	15,226	7,539	7,539
Balances due from credit institutions	4	154,636	154,355	70,302	70,275
Loans and advances to non-banking customers	5	75,742	67,654	35,255	33,925
Government bonds and other fixed income securities		49,270	49,117	30,421	30,421
- trading portfolio	6	*525*	*372*	*9,967*	*9,967*
- investment securities – available-for-sale	7	*12,008*	*12,008*	*12,529*	*12,529*
- held-to-maturity	7	*36,737*	*36,737*	*7,925*	*7,925*
Shares and other non-fixed income securities		757	729	710	710
- trading portfolio	6	*674*	*668*	*271*	*271*
- investment securities – available-for-sale	7	*83*	*61*	*439*	*439*
Investments in subsidiaries and associates	8	-	2,306	4	556
Goodwill	9	1,769	1,769	-	-
Property and equipment	10	10,254	9,917	5,306	5,275
Other assets	11	5,420	1,825	3,070	604
Prepayments and accrued income	12	602	416	494	461
Total assets		**313,676**	**303,314**	**153,101**	**149,766**
LIABILITIES					
Balances due to other banks	13	34,484	34,484	4,407	4,407
Due to customers	14	259,017	248,936	137,097	133,804
Other liabilities		241	211	75	75
Deferred income and accrued expense	15	909	807	765	723
Provisions for liabilities and charges		79	50	34	34
Deferred tax liabilities		120	120	-	-
Total liabilities		**294,850**	**284,608**	**142,378**	**139,043**
Minority interest		120	-	-	-
SHAREHOLDERS' EQUITY					
Paid-in share capital	16	20,209	20,209	17,409	17,409
Legal reserve		16	16	16	16
Less: treasury shares		(3)	(3)	-	-
Revaluation reserve - *property*		683	683	821	821
Revaluation reserve - *available-for-sale investments*		(1,032)	(1,032)	-	-
Accumulated loss		(1,167)	(1,167)	(7,523)	(7,523)
Total shareholders' equity		**18,706**	**18,706**	**10,723**	**10,723**
Total liabilities and shareholders' equity		**313,676**	**303,314**	**153,101**	**149,766**
MEMORANDUM ITEMS					
Funds under trust management	26	50,599	5,115	53,626	35,220
Contingent liabilities	26	1,909	1,909	337	337
Financial commitments	26	6,784	6,784	841	841
Foreign exchange transactions, net	26	17	17	19	19
		59,309	**13,825**	**54,823**	**36,417**

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

The financial statements were approved by the Council and the Board of Directors of the Bank on 15 March 2002 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Interest income	17	12,439	10,181	7,153	6,834
Interest expense	18	(4,541)	(3,708)	(2,776)	(2,546)
Net interest income		**7,898**	**6,473**	**4,377**	**4,288**
Commission and fee income	19	8,328	6,152	4,340	4,112
Commission and fee expense	20	(1,733)	(912)	(531)	(456)
Net commission and fee income		**6,595**	**5,240**	**3,809**	**3,656**
Profit on securities trading and foreign exchange, net	21	3,009	2,028	518	90
Provision for impairment of investment securities	7	(680)	(680)	(27)	(27)
Other operating income		1,150	150	69	37
Operating income		**17,972**	**13,211**	**8,746**	**8,044**
Administrative expense	22	(9,075)	(6,251)	(4,359)	(4,230)
Amortisation and depreciation charges	23	(1,935)	(1,525)	(628)	(627)
Other operating expense		(76)	-	-	-
Provisions for possible credit losses	24	(1,661)	(1,301)	(4,072)	(4,072)
Release of previously established provision	24	1,143	1,143	4,881	4,881
Losses of assets written off		(60)	(59)	(154)	(154)
Losses/income from subsidiaries and associates	8	-	891	59	606
PROFIT BEFORE INCOME TAX AND MINORITY INTEREST		**6,308**	**6,109**	**4,473**	**4,448**
Income tax release/(expense)	25	27	229	(25)	-
MINORITY INTEREST		3	-	-	-
NET PROFIT FOR THE YEAR		**6,338**	**6,338**	**4,448**	**4,448**

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

The consolidated financial statements were approved by the Council and the Board of Directors of the Bank on 15 March 2002 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2001

	Paid - in share capital	Legal reserve	Revaluation reserve – property	Revaluation reserve – available-for - sale investments	Accumulated loss	Total shareholders' equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
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 *h*)	-	-	(80)	-	80	-
Revaluation of investments in subsidiaries	-	-	540	-	-	540
As of 31 December 2000	**17,409**	**16**	**1,361**	**-**	**(8,063)**	**10,723**
Change in accounting policy*	-	-	(540)	-	540	-
As of 31 December 2000 as restated	17,409	16	821	-	(7,523)	10,723
Effect of adopting IAS 39						
- available-for-sale investments	-	-	-	(706)	-	(706)
- as restated	17,409	16	821	(706)	(7,523)	10,017
Net profit for the year	-	-		-	6,338	6,338
Transfers (Note 2 *h)*	-	-	(18)	-	18	-
Deferred income tax	-	-	(120)	-	-	(120)
Revaluation of available-for-sale investments	-	-	-	(326)	-	(326)
Share issue	2,800	-	-	-	-	2,800
Purchase of treasury shares	(3)	-	-	-	-	(3)
As of 31 December 2001	**20,206**	**16**	**683**	**(1,032)**	**(1,167)**	**18,706**

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

*See note 2 *c)* on impact of changes in accounting policy for recognition of share of profits in subsidiaries.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2001

	2001		2000	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
CASH INFLOW FROM OPERATING ACTIVITIES				
Profit before income tax and minority interest	6,308	6,109	4,473	4,448
Amortisation and depreciation of property and equipment	1,580	1,176	628	627
Goodwill amortisation	355	355	-	-
Profit from disposals of property and equipment	(5)	-	-	-
Increase/(decrease) in provisions for possible credit losses	168	219	(659)	(659)
(Gain)/loss from revaluation of long-term investments	680	(211)	-	(540)
(Increase)/decrease in prepayments and accrued income	108	45	(236)	(222)
Decrease/(increase) in other assets	(2,350)	(1,223)	2,142	4,446
Increase/(decrease) in deferred income and accrued expense	144	84	374	355
Increase/ (decrease) in other liabilities	166	136	38	38
Increase/(decrease) in provisions for liabilities and charges	45	16	(25)	(25)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	**7,199**	**6,706**	**6,735**	**8,468**
(Increase)/decrease in government bonds and other fixed and non-fixed income securities	(20,608)	(20,427)	90	90
(Increase)/decrease in balances due from other credit institutions	68,805	69,049	(30,383)	(30,383)
(Increase)/decrease in loans and advances to non-banking customers	(40,487)	(33,948)	(478)	852
(Decrease)/increase in balances due to other credit institutions	(10,846)	(10,846)	(1,213)	(1,213)
Increase in deposits from the public	121,920	115,132	35,934	34,531
Increase in cash and cash equivalents from operating activities before corporate income tax	**118,784**	**118,960**	**10,685**	**12,345**
Corporate income tax paid	-	-	(25)	-
Net cash and cash equivalents from operating activities	**125,983**	**125,666**	**10,660**	**12,345**
CASH OUTFLOW FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(2,231)	(2,164)	(1,157)	(1,125)
Sale of property and equipment	20	20	30	30
Acquisition of subsidiaries, net of cash acquired	-	(10,263)	-	-
(Purchase)/sale of equity investments in other entities and acquisition of subsidiaries	(10,255)	4	81	73
Decrease in cash and cash equivalents from investing activities	**(12,466)**	**(12,403)**	**(1,046)**	**(1,022)**
CASH INFLOW 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 for the period	**116,317**	**116,063**	**9,614**	**11,323**
Cash and cash equivalents at the beginning of the year	**43,769**	**43,742**	**34,155**	**32,419**
Cash and cash equivalents at the end of the year	**160,086**	**159,805**	**43,769**	**43,742**

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

1 INCORPORATION AND PRINCIPAL ACTIVITIES

The Parent Company of the Group – A/s Rietumu Banka 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. The Bank's legal address is 54 Brīvības street, Riga LV 1011, Latvia.

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 2001 and 2000, is set out below:

a) Reporting currency

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

b) Basis of accounting

These financial statements are prepared in accordance with International Accounting Standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of property, available-for-sale investment securities and financial assets and financial liabilities held for trading.

In 2001 the Group adopted IAS 39 Financial Instruments: Recognition and Measurement. The financial effects of adopting IAS 39 are reported in the statement of changes in shareholders' equity. Further information is disclosed in accounting policies for trading securities, investment securities and originated loans and provisions for loan impairment and in related notes.

Prior to adoption of IAS 39, all debt and equity securities, except for trading securities, were measured at amortised cost or cost respectively, providing only for permanent value impairments. IAS 39 has been applied prospectively in accordance with the requirements of this standard and therefore comparative financial information has not been restated.

c*) Basis of consolidation*

Investments in subsidiaries are accounted for by the equity method in the Bank's financial statements, where the Bank includes in its statement of income its share of subsidiaries' profit or loss during the period.

During the reporting period, the Bank has changed its accounting policy for the recognition of 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 statement of income and then included in retained earnings. This change in accounting policy has been accounted for retrospectively. The comparative statements for the year ended 31 December 2000 have been restated to conform to the changed policy. The effect of the change is an increase in revenue from the share of profits reported in the statement of income of LVL 1,262 thousands (in 2001) and LVL 540 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, and revaluation reserve decreased by equal amount.

Subsidiary undertakings, which are those companies and other entities in which the Group, directly or indirectly, has power to exercise control over financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The financial statements of the subsidiaries are consolidated in the Group's financial statements on a line-by-line basis by adding together similar types 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 unrealised profits and loss resulting from intra-group transactions are eliminated in the Group's financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Balances of the foreign subsidiary have been included in the consolidated financial statements at the exchange rate set by the Bank of Latvia as at the end of the reporting period. The average exchange rate during the reporting period is similar to the period end exchange rate; therefore the income and expense balances of the subsidiary are translated using the period end exchange rate.

The Bank has merged legally with one of its subsidiaries, JSC "Saules banka" on 1 July 2001. The Bank assumed ownership and responsibility for all of the assets and liabilities of the subsidiary as at 30 June 2001. According to the agreement between the Bank and its subsidiary, the Bank as of 1 July 2001 continues all operations carried out by the subsidiary up to the date of the merger. The subsidiary ceased to exist and was deregistered from the Companies Register.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Loans and advances to non-banking customers

For the purposes of these financial statements, loans and advances to non-banking customers include regular loans, credit card balances, as well as any other outstanding credit balances from non-banking customers.

Loans and advances to non-banking customers are carried at amortised cost.

Non-performing loans and advances to customers are provided for. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

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.

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

- specific provisions for non-performing loans,
- general provisions for loans.

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 statement of income in the period in which they become known.

When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the provision expense in the statement of income.

e) Investment securities

At 1 January 2001 the Bank and the Group adopted IAS 39 and classified its investment securities into the following two categories: held-to maturity and available-for-sale assets. Investment securities where the management has both the intent and ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classifies as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted prices. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Interest earned whilst holding investment securities is reported as interest income.

In 2000, prior to adoption of IAS 39, all investment securities were carried at cost or amortised cost, less any provision for impairment.

f) 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 initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted prices. All related realised and unrealised gains and losses are included in net trading income. Dividends received are included in dividend income.

g) Goodwill

Positive goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's and Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is amortised using the straight-line method over 5 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Property and equipment

All property and equipment is stated at historical cost or revalued amount less accumulated depreciation.
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
Office equipment	4 - 5 years
Vehicles	5 years
Other fixed assets	2 - 5 years
Safes	5 - 10 years

Revaluation is made on the basis of valuations performed by independent external valuer every five years. Increases in the carrying amount arising on revaluation of property are credited to the revaluation reserve in shareholder's equity. Decreases that offset previous increases of the same asset are charged against that reserve; all other decreases are charged to the statement of income. Each year the difference between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of income) and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings. Revaluation amounts are stated net of any potential deferred tax liabilities.

Leasehold improvements are capitalised and depreciated over the lesser of their useful life and the remaining lease contract period on a straight-line basis.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of income when the expenditure is incurred.

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

i) Funds under trust management

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.

j) Income and expense recognition

All interest income and expense items are recognized on an accrual basis using the effective yield method. No interest income is recognized on non-performing loans and advances (see paragraph *d*) 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. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

Commissions and fees are credited and/ or charged to the statement of income as earned/ incurred.

k) 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.

All translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses, whereas translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Thus, underlying translation differences on available-for-sale equities are included in the revaluation reserve in equity.

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 2001 and 31 December 2000 were as follows:

31.12.2001		**31.12.2000**	
USD	0.638	USD	0.613
DEM	0.287	DEM	0.291
EUR	0.561	EUR	0.570
RUB	0.0211	RUB	0.022
UAH	0.121	UAH	0.113

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Corporate income tax

The charge for current taxation is based on computations made by management separately for each of the Group companies in accordance with respective tax legislation.

Deferred tax is calculated separately for each of the Group companies, using the liability method, with respect to all temporary differences arising between the carrying value of assets and liabilities in the balance sheet and the value attributable to these assets and liabilities for tax calculation purposes. When an overall deferred tax asset arises, it is only recognized in the balance sheet where its recoverability is foreseen with reasonable certainty.

The principal temporary differences arise from depreciation on property and equipment, general provisions, tax losses carried forward and revaluation of properties and certain financial assets and liabilities.

The amount of deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

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) Treasury shares

Where the Bank or its subsidiaries purchase the Bank's share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs is shown as a deduction from total shareholders' equity.

o) Regulatory requirements

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

3 CASH AND BALANCES WITH CENTRAL BANKS

	31 December 2001 Group	31 December 2001 Bank	31 December 2000 Group	31 December 2000 Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Cash	5,757	5,757	2,198	2,198
Deposits with the Bank of Latvia	9,469	9,469	5,341	5,341
Total cash and deposits with the Bank of Latvia	**15,226**	**15,226**	**7,539**	**7,539**

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 the Bank is required to maintain a compulsory reserve set at 6% 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.

4 BALANCES DUE FROM CREDIT INSTITUTIONS

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Demand placements with:				
Latvian banks	624	624	49	49
OECD credit institutions	147,148	147,148	30,395	30,395
Non-OECD credit institutions	2,394	2,113	5,924	5,897
Gross demand placements	**150,166**	**149,885**	**36,368**	**36,341**
Provision for possible credit losses (see Note 25)	(55)	(55)	(66)	(66)
Total demand placements, net	**150,111**	**149,830**	**36,302**	**36,275**
Term placements with:				
Latvian banks	50	50	-	-
OECD credit institutions	1,511	1,511	30,935	30,935
Non-OECD credit institutions	2,964	2,964	3,065	3,065
Total term placements	**4,525**	**4,525**	**34,000**	**34,000**
Total balances due from credit institutions, net	**154,636**	**154,355**	**70,302**	**70,275**

During 2001 the average interest rate received on balances due from credit institutions was 3,85 % per annum (during 2000 - 6.0%).

4 BALANCES DUE FROM CREDIT INSTITUTIONS (continued)

The largest balances due from credit institutions as of 31 December 2001 were as follows:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
ABN AMRO New York (USA)	44,871	44,871	98	98
Vereins und Westbank (Hamburg)	35,799	35,799	34,329	34,329
Commerzbank (Frankfurt)	31,509	31,509	-	-
Republic National Bank (USA)	22,132	22,132	10,935	10,935
Bankers Trust	8,112	8,112	2,010	2,010
Russian Saving Bank	-	-	2,149	2,149
Alfa Bank (Russia)	2,963	2,963	1,598	1,598
Tehnobank (Belarus)	1,077	1,077	-	-
Unibank (Denmark)	4	4	12,294	12,294
Total	**146,467**	**146,467**	**63,413**	**63,413**

5 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

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

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Private companies	70,239	62,238	34,244	32,962
Loans to private individuals	7,220	7,133	2,026	1,978
Total gross loans and advances to non-banking customers	**77,459**	**69,371**	**36,270**	**34,940**
Specific provisions for possible credit losses (see Note 24)	(1,361)	(1,361)	(492)	(492)
General provisions for possible credit losses (see Note 24)	(356)	(356)	(523)	(523)
Loans and advances to non-banking customers, net	**75,742**	**67,654**	**35,255**	**33,925**
Loans and advances secured by cash deposits	(30,864)	(30,864)	(8,981)	(8,981)
Loans and advances subject to credit risk, net	**44,878**	**36,790**	**26,274**	**24,944**

In 2001, the weighted average interest rates for loans were 7,45 % (2000:9%) and 9,65 % (2000: 8,70%) for short-term and long-term loans, respectively.

Latvian banking legislation requires that any credit exposure to non-related entities may not exceed 25% of a credit institution's equity (see note 30 for definition of equity under Latvian banking legislation). As of 31 December 2001 the Bank was not in compliance with this requirement.

The amount of loans, for which interest is not accrued, is LVL 2,154 thousand as of 31 December 2001 (2000: LVL 4,816 thousand).

5 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS (continued)

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	More than 1 year LVL'000	Total LVL'000
31 December 2001						
Commercial & industrial companies	11,655	26,162	5,268	3,951	22,062	69,098
Individuals	379	16	244	566	5,439	6,644
Total	**12,034**	**26,178**	**5,512**	**4,517**	**27,501**	**75,742**
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**

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

	31 December 2001 LVL'000	31 December 2000 LVL'000
Latvia	32,828	15,388
Non-OECD countries	30,531	3,570
OECD countries	12,383	16,297
Total	**75,742**	**35,255**

6 TRADING SECURITIES

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
United States government bonds	-	-	9,967	9,967
Russian government bonds	372	372	-	-
US corporate bonds	153	-		
Shares listed on the Moscow stock exchange	547	547	271	271
Shares listed on the Riga stock exchange	121	121	-	-
Shares listed on the New York stock exchange	6	-	-	-
Total	**1,199**	**1,040**	**10,238**	**10,238**

7 INVESTMENT SECURITIES

Available-for-sale securities:

	31 December 2001 Group LVL'000	31 December 2000 Group LVL'000
United States government bonds	13,040	12,529
Revaluation	(1,032)	-
Equity securities – at fair value		
- Listed	-	390
- Unlisted	83	49
Total available-for-sale securities	**12,091**	**12,968**

Unlisted equity securities available-for-sale include LVL 83 of SWIFT shares and shares of Riga Stock Exchange.

7 INVESTMENT SECURITIES (continued)

Securities held -to-maturity

	31 December 2001 Group LVL'000	31 December 2000 Group LVL'000
Russian government bonds	-	1,348
Argentina government bonds	1,951	1,862
Provision for impairment of Argentina government bonds	(707)	-
Revaluation of Russian government Bonds	-	(27)
US corporate bonds	32,578	4,124
Canadian corporate bonds	984	-
Great Britain corporate bonds	641	618
France corporate bonds	1,290	-
Total securities held-to-maturity	**36,737**	**7,925**
Total investment securities	**48,828**	**20,893**

Investment securities as at 31 December 2001 have been split into available-for-sale and held-to-maturity based on whether the management had positive intent to hold certain securities until maturity at that date.

The carrying value and the fair value of Banks' investment securities were as follows:

	31 December 2001 Carrying value LVL'000	31 December 2001 Fair value LVL'000
United States government bonds	12,008	12,008
Argentina government bonds	1,244	1,244
Corporate bonds	35,493	35,449
Equity securities	83	61
Total investment securities	**48,828**	**48,762**

Whilst the Bank received its scheduled coupon on its Argentina bonds in December 2001, Argentina Eurobonds are considered to be in default in 2002. The Argentina economy has gone through significant turmoil in recent months which has also caused political instability in the country. The government has unpegged the peso from the US dollar resulting in a significant devaluation of the peso against the US dollar from its previous pegged level of 1 peso = 1 USD.

Eurobonds held by the Bank are US dollar denominated and have an original scheduled maturity date of 2003. Whilst no external debt restructuring has been announced as yet by the Argentina government it is widely expected that these Eurobonds will be restructured and at the present there is impairment in their value. There are no active market prices available for these bonds. In a very thin market price quotes of 30% are available but these are not considered reliable for the purposes of estimating true fair value of these bonds. The management have therefore considered various scenarios of the possible restructuring of these Eurobonds to estimate the provision for impairment. The management consider that the estimates the have used are prudent, which include restructuring the final maturity to the year 2008. The provision for impairment in effect values the Eurobond at approximately 65% of their face value.

7 INVESTMENT SECURITIES (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
31 December 2001						
Russian government bonds	-	-	-	-	372	372
United States government bonds	-	-	-	-	12,008	12,008
Argentina government bonds	-	-	-	-	1,244	1,244
US corporate bonds	17,841	6,673	-	3,081	5,136	32,731
Canadian corporate bonds	984	-	-	-	-	984
Great Britain corporate government bonds	-	-	-	-	641	641
France corporate government bonds	-	-	-	-	1,290	1,290
Total	**18,825**	**6,673**	**-**	**3,081**	**20,691**	**49,270**
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**

8 INVESTMENTS IN SUBSIDIARIES

As of 31 December 2001 and 2000, 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 2001		31 December 2000	
RB Securities Ltd	Financial services	3 Chrysanthou Mylona street, Limassol, Cyprus	99.99%	13	99.99%	12
Revaluation				1,823		540
				1,836		552
JSC “Baltijas karšu centrs”	Processing of payment cards	Dzērbenes14 Riga, Latvia	75%	349	-	-
JSC “Baltijos Vertybiniai popieriai”	Brokerage services	Gedemino pr. 60, Vilnius, Lithuania	99%	121	-	-
SIA Maiznica Flora	Food products	Vangazu 20, Riga, Latvia	-	-	12%	4
Total investments in subsidiaries				**2,306**		**556**

The movements of the Bank’s investments in subsidiaries were as follows:

	RB Securities Ltd	Maiznīca Flora	Baltijos Vertybiniai Poperiai	Baltijas Karšu Centrs	Saules Investīcijas	Saules Banka	Total
Investment value as of 31 December 2000	**552**	**4**	**-**	**-**	**-**	**-**	**556**
Acquisition of Saules Banka	-	-	-	-	-	10,263	10,263
Legal merger with Saules Banka (see note 9)	-	-	137	355	88	(9,946)	(9,366)
Revaluation	1,262	-	(16)	(6)	(32)	(317)	891
Foreign currency revaluation	22	-	-	-	-	-	22
Sales	-	(4)	-	-	(56)	-	(60)
Investment value as of 31 December 2001	**1,836**	**-**	**121**	**349**	**-**	**-**	**2,306**

RB Securities Ltd, A/s “Baltijas karšu centrs” and JSC “Baltijos Vertybiniai popieriai” are consolidated in the Group accounts.

9 GOODWILL

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

Detail of the net assets acquired

Purchase consideration (cash paid)	10,263
Fair value of net assets acquired	(8,139)
Positive goodwill	**2,124**
Amortised goodwill in the period	(355)
Positive goodwill as of 31 December 2001	**1,769**

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

Investments	656
Debtors	23,611
Cash and cash equivalents	129,224
Property and equipment	3,985
Other assets	2,581
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	**8,139**
Goodwill	2,124
Total purchase consideration	**10,263**

As of 30 June 2001 the assets and liabilities of A/s Saules Banka were merged into A/s Rietumu Banka and A/s Saules Banka as a separate legal entity ceased to exist.

10 PROPERTY AND EQUIPMENT

Property and equipment of the Bank are composed as follows:

(LVL'000)	Land and Buildings	Unfinished construct-ion	Vehicles	Office equipment	Advance payments for equipment	Leasehold improve-ments	Total property and equipment
Historical cost or revaluation							
31 December 2000	**2,994**	**878**	**652**	**2,569**	**221**	**388**	**7,702**
Additions	12	637	94	905	472	44	2,164
Acquisition of Saules banka	1,935	296	130	1,162	40	117	3,680
Disposals	-	-	(152)	(7)	-	-	(159)
Transfers	318	(318)	-	-	-	-	-
31 December 2001	**5,259**	**1,493**	**724**	**4,629**	**733**	**549**	**13,387**
Accumulated depreciation							
31 December 2000	**382**	**-**	**352**	**1,380**	**-**	**313**	**2,427**
Charge for the period	84	**-**	112	938	-	42	1,176
Disposals	-	**-**	(128)	(5)	-	-	(133)
31 December 2001	**466**		**336**	**2,313**	**-**	**355**	**3,470**
Net book value							
31 December 2000	**2,612**	**878**	**300**	**1,189**	**221**	**75**	**5,275**
31 December 2001	**4,793**	**1,493**	**388**	**2,316**	**733**	**194**	**9,917**

Property and equipment of the Group are composed as follows:

(LVL'000)	Buildings	Unfinished construct-ion	Vehicles	Office equipment	Advance payments for fixed assets	Leasehold refurbish-ments	Total Fixed Assets
Historical cost							
31 December 2000	**2,994**	**878**	**679**	**2,569**	**226**	**388**	**7,734**
Purchase	12	637	94	972	472	44	2,231
Acquisition of Saules banka and subsidiaries	1,935	301	180	1,742	52	117	4,327
Disposals	-	(5)	(152)	(29)	-	-	(186)
Transfers	318	(318)	-	-	-	-	-
31 December 2001	**5,259**	**1,493**	**801**	**5,254**	**750**	**549**	**14,106**
Accumulated depreciation							
31 December 2000	**382**	**-**	**353**	**1,380**	**-**	**313**	**2,428**
Charge for the period	84	**-**	126	1,328	-	42	1,580
Disposals	-	**-**	(130)	(26)	-	-	(156)
31 December 2001	**466**		**349**	**2,682**	**-**	**355**	**3,852**
Net book value							
31 December 2000	**2,612**	**878**	**326**	**1,189**	**226**	**75**	**5,306**
31 December 2001	**4,793**	**1,493**	**452**	**2,572**	**750**	**194**	**10,254**

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

Buildings include the Bank's head office at Brivibas Street 54, Riga, the Bank's branch and office at Vesetas Street 7, Riga. The office at Vesetas Street 7 was revalued by LVL 163,000 in 1997 to reflect the fair market value of the building.

During February 1998, the Bank purchased another building located at Brivibas St. 54, Riga, Latvia for LVL 1,700,000. The building was revalued by LVL 787,000. This building became the new head office of the Bank in July 1998. The building was independently valued by a certified valuer as at 31 December 1998 as having a value of LVL 2,800,000. The difference between the carrying value and market value has been credited to the revaluation reserve.

11 OTHER ASSETS

Other assets are comprised of the following:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Europay International deposit for credit cards	1,383	1,383	175	175
Traveller cheques	77	77	64	64
Advances for goods and services	42	42	7	7
Due from the brokers	3,457	37	2,497	31
American Express security deposit	-	-	285	285
VISA International security deposit	33	33	-	-
Other assets	421	247	42	42
Cash advances to employees	9	8	2	2
	5,422	**1,827**	**3,072**	**606**
Provision for other assets (Note 25)	(2)	(2)	(2)	(2)
Total	**5,420**	**1,825**	**3,070**	**604**

12 PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income are comprised of the following:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Accrued interest income from loans	237	186	296	274
Accrued interest income on balances due from banks	34	34	128	128
Accrued income from spot deals	3	3	-	-
Prepaid expenses	337	194	70	59
Provision on accrued income	(9)	(1)	-	-
Total	**602**	**416**	**494**	**461**

13 BALANCES DUE TO CREDIT INSTITUTIONS

Balances due to credit institutions are comprised of the following:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Balances due to credit institutions registered in Latvia	602	602	500	500
Balances due to credit institutions registered in OECD countries	24,882	24,882	-	-
Balances due to credit institutions registered in non-OECD countries	9,000	9,000	3,907	3,907
Total	**34,484**	**34,484**	**4,407**	**4,407**

Deposits of LVL 27,415 thousand (2000: LVL 2,829 thousand) are pledged as a security for loans issued by the Bank. See Note 5.

13 BALANCES DUE TO CREDIT INSTITUTIONS (continued)

The largest amounts due to banks were as follows:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Intermaritime bank (Switzerland)	24,882	24,882	-	-
New Savings bank A.D	3,858	3,858		
Avtozazbank Bank (Ukraine)	-	-	1,006	1,006
Real bank (Ukraine)	1,924	1,924	1,839	1,839
Minskkomplex Bank (Belarus)	593	593	622	622
Total	**31,257**	**31,257**	**3,467**	**3,467**

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

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Demand deposits	5,251	5,251	72	72
Term deposits	29,233	29,233	4,335	4,335
Total	**34,484**	**34,484**	**4,407**	**4,407**

14 DUE TO CUSTOMERS

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Demand deposits from				
Municipality	23	23	18	18
State enterprises	48	48	54	54
Private companies	8,629	8,700	4,241	4,241
Individuals	10,704	10,440	3,345	3,345
Private companies non-residents	192,899	170,402	86,899	85,018
Individuals non-residents	1,384	20,117	8,771	8,769
Total demand deposits	**213,687**	**209,730**	**103,328**	**101,445**
Term deposits				
Municipality	4,000	4,000	4,000	4,000
Private companies	1,602	1,662	805	805
Individuals	2,656	2,656	3,875	3,875
Private companies non-residents	31,426	25,402	22,053	20,793
Individuals non-residents	5,646	5,486	3,036	2,886
Total term deposits	**45,330**	**39,206**	**33,769**	**32,359**
Total deposits from the public	**259,017**	**248,936**	**137,097**	**133,804**

Deposits of LVL 3,449 thousand (2000: 6,152 thousand) are pledged as a security for loans issued by the Bank. See Note 5.

14 DUE TO CUSTOMERS (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
31 December 2001						
Municipality	-	-	4,000	-	-	4,000
Private companies	1,535	32	1	34	-	1,602
Individuals	551	514	466	983	142	2,656
Non-residents	18,525	11,587	3,153	2,749	1,058	37,072
Total	**20,611**	**12,133**	**7,620**	**3,766**	**1,200**	**45,330**
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**

In 2001 the weighted average interest rate on term deposits was 3.57% and 4.89% (2000: 5.15% and 6.3%) for short and long-term deposits respectively.

15 DEFERRED INCOME AND ACCRUED EXPENSE

	31 December 2001 Group	31 December 2001 Bank	31 December 2000 Group	31 December 2000 Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Accrued interest expense on deposits	536	526	731	721
Other	373	281	34	2
Total	**909**	**807**	**765**	**723**

16 PAID-IN SHARE CAPITAL

As of 31 December 2001 the authorised and issued share capital comprise of 20,209,375 (2000: 17,408,750) shares with a par value of LVL 1 per share, paid share capital comprise of 20,206,875. All shares are distributed as follows:

	31 December 2001 LVL'000	31 December 2000 LVL'000
Private persons	18,078	15,427
Companies non-residents	2,123	1,974
Members of the Board	8	8
Total	**20,209**	**17,409**

The largest shareholders of the Bank as of 31 December 2001:

	31 December 2001 Paid capital LVL' 000	31 December 2001 percentage holding
Leonid Esterkin	6,873	34.01
Tony Levin	6,731	33.31
Arkady Suharenko	3,584	17.73
Other	3,021	14.95
Total	**20,209**	**100.00**

The Bank owns 2,500 shares, which are reserved for the Board members. The Members of the Board hold non-voting shares.

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the Meeting on 15 March 2002, a dividend in respect of 2001 of LVL 0,05 per share (2000: nil) amounting to total of LVL 1,010 thousand to be proposed. The financial statements of 2001 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2002.

17 INTEREST INCOME

Interest income is comprised of the following:

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
On balances due from credit institutions	3,431	3,062	2,045	2,045
On loans granted to customers	6,501	4,638	2,964	2,681
On fixed income securities	1,982	1,973	1,569	1,569
Other	525	508	575	539
Total	**12,439**	**10,181**	**7,153**	**6,834**

18 INTEREST EXPENSE

Interest expense is comprised of the following:

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
On deposits from the public	3,746	2,995	2,065	1,835
On balances due to credit institutions	677	625	641	641
Other	118	88	70	70
Total	**4,541**	**3,708**	**2,776**	**2,546**

19 COMMISSION AND FEE INCOME

Commission and fee income is comprised of the following:

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Money transfers	3,903	3,038	2,505	2,505
Cash withdrawals	498	498	366	366
Home banking	303	303	277	277
Commission income from credit cards	1,001	786	265	265
Revenue from customer asset Management and brokerage commissions	1,027	33	209	73
Account opening	266	266	138	138
Commission income from loans	416	416	91	91
Other	914	812	489	397
Total	**8,328**	**6,152**	**4,340**	**4,112**

20 COMMISSION AND FEE EXPENSE

Commission and fee expense is comprised of the following:

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Banks	546	409	322	322
Brokerage commission	535	13	132	62
Cash withdrawals	26	26	36	36
Credit card expenses	375	230	16	16
Other commission	251	234	25	20
Total	**1,733**	**912**	**531**	**456**

21 NET GAIN FROM TRADING WITH SECURITIES AND FOREIGN CURRENCIES

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Foreign exchange (loss)/profit from conversion of Russian Rouble	620	620	(191)	(194)
Foreign exchange profit from conversion of Belorussian Rouble	39	39	14	14
Foreign exchange profit from conversion of Kazakhstan Tenge	12	12	10	10
Foreign exchange profit from conversion of Ukrainian Hryvna	11	11	46	46
Foreign exchange profit from conversion of OECD country currencies	794	1,075	409	409
Loss from foreign currency revaluation	(120)	(123)	(110)	(104)
Profit from deals with trading securities	1,920	825	939	529
(Loss)/profit from revaluation of securities	80	80	(142)	(142)
(Loss)/profit from deals with other financial instruments	(511)	(511)	(513)	(513)
Other	164	-	56	35
Total net gain from trading with securities and foreign currencies	**3,009**	**2,028**	**518**	**90**

22 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 2001 and 2000, the Bank employed on average 420 and 301 employees, respectively.

Administrative expense is comprised of the following:

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Salaries to Board of Directors and Council	616	564	372	372
Staff salaries	2,679	2,072	1,266	1,251
Social insurance contributions	756	593	373	373
Communications	1,115	933	558	546
Professional fees	1,021	151	458	455
Advertising and marketing	170	156	81	81
Charitable donations	129	129	110	110
Utilities and maintenance	92	53	60	60
Representation	128	90	67	67
Travel	183	151	136	136
Rent	315	175	183	164
Stationary	125	66	24	24
Training	18	12	14	14
Fines	19	19	5	5
Security	70	7	3	3
Property tax	66	66	43	43
Other	1,573	1,014	606	526
Total	**9,075**	**6,251**	**4,359**	**4,230**

23 AMORTISATION AND DEPRECIATION CHARGE

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Property and equipment depreciation	1,580	1,170	628	627
Goodwill amortisation	355	355	-	-
Total	**1,935**	**1,525**	**628**	**627**

24 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 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**
Acquisition of subsidiary and merger	488	56	544
Decrease of provisions	(1,114)	(29)	(1,143)
Net of provisions charged to the profit and loss statement	1,301	-	1,301
Written off assets	(57)	(38)	(95)
Currency revaluation	84	-	84
Provisions as of 31 December 2001	**1,717**	**57**	**1,774**

25 TAXATION

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 25% rate as stipulated by the law:

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Profit before taxation	**6,308**	**6,109**	**4,448**	**4,448**
Theoretically calculated tax at a tax rate of 25 % (2000 – 25%)	**1,577**	**1,527**	**1,112**	**1,112**
Expenses not deductible for tax purposes	355	278	176	176
Non-taxable income	(69)	(326)	(800)	(800)
Changes in the previously unrecognised deferred tax	(1,177)	(1,177)	(488)	(488)
Result of revaluation of temporary differences	(178)	(258)	-	-
Effect of different tax rates in other countries	(262)	-	-	-
Effect of changing Corporate tax rates on the deferred tax calculation	(273)	(273)	-	-
Tax charge / (credit)	**(27)**	**(229)**	**-**	**-**

Deferred tax has been calculated using the following temporary differences between the book value and taxable value of assets and liabilities:

	2001 Group LVL'000	2001 Bank LVL'000	2000 Group LVL'000	2000 Bank LVL'000
Temporary difference on depreciation of fixed assets	592	592	531	531
General provisions	(78)	(78)	(131)	(131)
Tax losses carried forward	(167)	(167)	(1,527)	(1,527)
Revaluation reserve – available-for-sale investments	(227)	(227)		
Temporary differences for which no deferred tax asset is recognised	-	-	1,128	1,128
Deferred tax liability	**120**	**120**	**-**	**-**

26 MEMORANDUM ITEMS

The structure of funds under trust management outstanding as of 31 December 2001 and 2000 were as follows:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Russian government bonds	26,564	3,254	17,743	8,563
Shares listed on the Russian stock exchange	3,322	680	6,665	542
Ukrainian government bonds	941	602	321	321
Mutual funds	225	225	132	132
United States corporate bonds	4,682	120	363	4
Latvian government bonds	101	101	-	-
Due from Paveletsky and Impexbank	63	63	-	-
Privatisation certificates	40	40	122	122
Shares listed on the New York stock exchange	2,551	17	294	26
Shares listed on the Frankfurt stock exchange	27	13	-	-
Deposit in Standard Bank (London)	-	-	25,498	25,498
Brazilian government bonds	2,757	-	661	-
United States government bonds	4,284	-	607	-
Other assets	5,042	-	1,220	12
Total	**50,599**	**5,115**	**53,626**	**35,220**

Funds under trust management 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. All securities are stated at their market value.

Memorandum items are comprised of the following:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Contingent liabilities				
Outstanding guarantees	1,909	1,909	337	337
Credit commitments	6,784	6,784	841	841
Spot exchange receivable	(7,535)	(7,535)	(1,656)	(1,656)
Spot exchange payable	7,552	7,552	1,675	1,675
Total foreign exchange transactions, net	**17**	**17**	**19**	**19**
Total	**8,710**	**8,710**	**1,197**	**1,197**

As of 31 December 2001 there was 59 outstanding foreign exchange spot agreements (2000:17).

Legal Proceedings. As of 31 December 2001 there were 7 legal proceedings outstanding against the Group. Total amount disputed in these proceedings is LVL 1,434 thousands. Provisions are made for claims where management on the basis of professional advice to the Group, considers that it is likely that a loss may eventuate. (2000: five outstanding legal proceedings against the Bank).

Capital commitments. At 31 December 2001 the Group had capital commitments of LVL 1,247 in respect of software and hardware purchases. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

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.

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2001 Group LVL'000	31 December 2001 Bank LVL'000	31 December 2000 Group LVL'000	31 December 2000 Bank LVL'000
Cash	5,757	5,757	2,198	2,198
Balances due from the Bank of Latvia	9,469	9,469	5,341	5,341
Demand deposits due from other banks	150,111	149,830	36,302	36,275
(Demand deposits due to other banks)	(5,251)	(5,251)	(72)	(72)
Total	**160,086**	**159,805**	**43,769**	**43,742**

28 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 2001 Amount LVL'000	31 December 2000 Amount LVL'000
Loans:		
Loans at the beginning of year	239	78
Loans to management and directors issued during year	148	250
Transfers	-	(30)
Loan repaid during the year	(83)	(59)
Loans to management at the end of year	**304**	**239**
Interest income earned	28	12
Deposits		
Deposits at the beginning of year	2,010	1,127
Deposits received during year	105	1,891
Deposits repaid during the year	(2,010)	(1,008)
Deposits at the end of year	**105**	**2,010**
Interest expense on deposits	1	4
Guarantees and credit lines issued by the Group for management and Directors	139	126

No provisions have been recognised in respect of loans or guarantees given to related parties (2000: nil).

All transactions with related parties have been carried out at length arm's principle.

As of 31 December 2001, 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 30.

29 FOREIGN EXCHANGE EXPOSURES

The following table provides analysis of the Bank's assets and liabilities by currency as of 31 December 2001:

	Assets	Liabilities	Net future open position	Open position	Percent of share capital
USD	250,658	252,039	415	(966)	(56,14%)
RUB	3,539	3,792	-	(253)	(1,61%)
UAH	6	26	-	(20)	(0,13%)
EUR	15,836	15,682	-	154	0,98%
SEK	45	21	(93)	(69)	(0,44%)
Other (short)	124	159	-	(35)	(0,22%)
Other (long)	3,036	2,930	-	106	0,67%
Total	**273,244**	**274,649**	**322**	**(1,083)**	

Total short position	**(1,343)**
Total long position	**260**
Total open position	**8,54%**
Capital requirement for foreign currency exchange risk	**103**

The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures.

As of 31 December 2001, the Bank was in compliance with the Law on Credit Institutions regulatory requirements requiring that open positions in any individual foreign currency may not exceed 10% of Bank's equity (see Note 30 for the definition of Bank's equity under the Finance and Capital Market Commission's guidelines), and that the total foreign currency open position may not exceed 20% of the Bank's equity.

30 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 Finance and Capital Markets Commission in respect to share capital of banks, the Bank's share capital to be utilized in the capital adequacy ratio as of 31 December 2001 has been calculated as follows:

Tier 1	
- paid-in share capital	20,209
- reserve capital	16
- accumulated loss	(7,505)
- less: treasury shares	(3)
- profit of the year 2001	6,338
Deductions from the capital base	
Goodwill	(1,769)
Dividends declared	(1,010)
Total Tier 1	**16,276**
70% of property revaluation reserve	478
Investments available-for-sale revaluation reserve	(1,032)
Total Tier 2	**(554)**
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission	**15,722**
Tier 2 Under the Basle Agreement	
Property revaluation reserve	683
Investments available-for-sale revaluation reserve	(1,032)
Equity to be utilized for the capital adequacy calculation under the Basle Agreement	**15,927**

30 CAPITAL ADEQUACY (continued)

As of 31 December 2001, the Bank was in compliance with the Law On Latvian Credit Institutions and the requirements of the Finance and Capital Market Commission in respect to capital adequacy and the minimum equity level. The calculation of capital adequacy according to the Finance and Capital Market Commission requirements is presented in the following table:

	Assets 31 December 2001	**Risk weighting %**	**Risk weighted assets**
Balance sheet items			
Cash and deposits with the Bank of Latvia	15,226	0%	-
Balances due from governments and central banks within A zone countries	12,008	0%	-
Loans and advances secured by deposits	30,944	0%	-
Balances due from credit institutions within A zone countries	150,380	20%	30,076
Demand deposits with credit institutions within Latvia	624	20%	125
Term deposits with credit institutions within Latvia	50	50%	25
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	4,075	50%	2,038
Accrued income and prepayments	522	100%	522
Balances due from governments and central banks within B zone countries	1,244	100%	1,244
Balances due from credit institutions within B zone countries	5,303	100%	5,303
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	74,575	100%	74,575
Shares and other non-fixed income securities and investments in subsidiaries	83	100%	83
Property and equipment	10,255	100%	10,255
Other assets	5,419	100%	5,419
Total assets	**310,708**		**129,665**
Memorandum items			
Credit commitments	3,740	50%	1,870
Credit commitments with zero risk weighted	1,182	0%	-
Outstanding guarantees with zero risk weighted	556	0%	-
Outstanding guarantees with 100% risk weighted	1,353	100%	1,353
Total assets and memorandum items for capital adequacy			**132,888**
Capital requirement for credit risk of banking book			**13,289**
Capital requirement for position risk of trading book			**166**
Capital requirement for foreign currency exchange risk			**103**
Capital charges covered by own funds			**2,164**
Capital adequacy ratio			**11.60%**

As of 31 December 2001 Group's capital adequacy according to the Finance and Capital Market Commission's requirements was 11.60%. The Law On Credit Institutions and Finance and Capital Market Commission'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.

30 CAPITAL ADEQUACY (continued)

The capital adequacy of the Group under the Basle agreement as of 31 December 2001 is calculated as follows:

	Assets As of 31 December 2001	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	15,226	0%	-
Loans and advances secured by deposits	30,944	0%	-
Claims on OECD central governments and central banks	12,008	0%	-
Balances due from credit institutions within OECD area	150,380	20%	30,076
Balances due from credit institutions within non-OECD area	5,977	20%	1,195
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	4,075	50%	2,038
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	74,575	100%	74,575
Claims on central governments outside the OECD (unless denominated in national currency)	1,244	100%	1,244
Shares and other non-fixed income securities and investments in subsidiaries	83	100%	83
Accrued income and prepayments	522	100%	522
Property and equipment	10,255	100%	10,255
Other assets	5,419	100%	5,419
Total assets	**310,708**		**125,407**
Memorandum items			
Credit commitments	3,740	50%	1,870
Credit commitments with zero risk weighted	1,182	0%	-
Outstanding guarantees with zero risk weighted	1,353	100%	1,353
Outstanding guarantees with 100% risk weighted	556	0%	-
Total assets and memorandum items for capital adequacy			**128,630**
Capital requirement for credit risk of banking book			**12,863**
Capital requirement for position risk of trading book			**166**
Capital requirement for foreign currency exchange risk			**103**
Total share capital for capital adequacy			**15,927**
Capital adequacy ratio			**12.13%**

The Group's risk based capital adequacy as of 31 December 2001 was 12.13%, which is above the minimum ratio of 8% recommended under the Basle agreement.

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

The table below allocates the Group'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 2001 was the following:

LVL'000	Up to 1 month	1 and 3 months	3 and 6 months	6 and 12 months	More than 1 year and undated	Total
Assets						
Cash and deposits with the Bank of Latvia	15,226	-	-	-	-	15,226
Balances due from credit institutions	154,267	-	50	-	319	154,636
Loans and advances to non-banking customers	12,034	26,178	5,512	4,517	27,501	75,742
Government bonds and other fixed income securities	18,825	6,673	-	3,081	20,691	49,270
Shares and other non-fixed income securities	674	-	-	-	83	757
Goodwill	-	-	-	-	1,769	1,769
Property and equipment	-	-	-	-	10,255	10,255
Other assets	5,419	-	-	-	-	5,419
Prepayments and accrued income	-	602	-	-	-	602
Total assets	**206,445**	**33,453**	**5,562**	**7,598**	**60,618**	**313,676**
Less prepaid expenses	**(337)**	**-**	**-**	**-**	**-**	**(337)**
Total assets for calculation of liquidity	**206,108**	**33,453**	**5,562**	**7,598**	**60,618**	**313,339**
Liabilities						
Balances due to credit institutions	6,443	24,882	3,131	5	23	34,484
Deposits from the public	234,298	12,133	7,620	3,766	1,200	259,017
Other liabilities	241	-	-	-	-	241
Deferred income and accrued expense	467	224	103	64	51	909
Provisions for liabilities and charges	-	-	79	-	-	79
Deferred tax liabilities	-	-	-	-	120	120
Total shareholders' equity	-	-	-	-	18,706	18,706
Total liabilities and shareholders' equity	**241,449**	**37,239**	**10,933**	**3,835**	**20,100**	**313,556**
Net liquidity	**(35,341)**	**(3,786)**	**(5,371)**	**3,763**	**40,518**	**(217)**
Total liquidity	**(35,341)**	**(39,127)**	**(44,498)**	**(40,735)**	**(217)**	

32 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. The Bank seeks to control this risk through the activities of the Bank's Treasury, Treasury policy and Asset and Liability committee.

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

LVL'000	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	More than 1 year	Non-interest bearing	Total
Assets							
Cash and deposits with the Bank of Latvia	-	-	-	-	-	15,226	15,226
Balances due from credit institutions	151,967	-	50	-	319	2,300	154,636
Loans and advances to non-banking customers	12,034	26,178	5,512	2,363	27,501	2,154	75,742
Government bonds and other fixed income securities	18,825	6,673	-	3,081	19,447	1,244	49,270
Shares and other non-fixed income securities	-	-	-	-	-	757	757
Goodwill	-	-	-	-	-	1,769	1,769
Property and equipment						10,255	10,255
Other assets	4,873	-	-	-	-	546	5,419
Prepayments and accrued income	-	-	-	-	-	602	602
Total assets	**187,701**	**32,851**	**5,562**	**5,444**	**47,267**	**34,853**	**313,676**
Liabilities							
Balances due to credit institutions	5,350	24,882	3,131	5	23	1,093	34,484
Deposits from the public	113,484	12,133	7,620	3,766	1,200	120,814	259,017
Other liabilities	-	-	-	-	-	241	241
Deferred income and accrued expense	-	-	-	-	-	909	909
Provisions for liabilities and charges	-	-	-	-	-	79	79
Deferred tax liabilities	-	-	-	-	-	120	120
Total shareholders' equity	-	-	-	-	-	18,706	18,706
Total liabilities and shareholders' equity	**118,834**	**37,015**	**10,751**	**3,771**	**1,223**	**141,962**	**313,556**

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