

2000

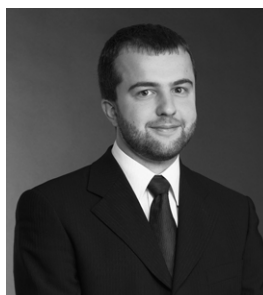
A I Z K R A U K L E S B A N K A • A N N U A L R E P O R T

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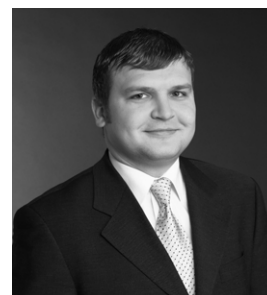
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Aleksandrs Bergmanis



Ernests Bernis



Olegs Fijs

MANAGEMENT REPORT

The previous year was a year of stable growth and changes for Aizkraukles Banka. Economic indicators of the Latvian economy for 2000 witnessed a general positive tendency that notably influenced the business achievements of Aizkraukles Banka.

The reforms initiated by the management of the Bank in 2000 enabled improvement in the efficiency of service of Customers.

The Bank's strategy, the development of which was one of top priorities of the Bank's management last year, clearly determined further development of Bank's activity in two directions: meeting the financial needs of non-residents and serving medium-size Latvian enterprises and private Customers, whose activity is centred in Riga, Jurmala and Riga district.

Aizkraukles Banka is determined to facilitate achieving Customers' objective and financial requirements, making services provided prompt, convenient and easily accessible, optimising transaction processing time and maintaining the high confidentiality of Customers' information.

In the beginning of 2000, intensive work was carried out in order to reorganize the Bank's structure with the help of consulting company, Arthur Andersen SIA. The main objective of the planned changes was to develop a Bank's structure that would separate the Customer Service Division, risk management, control and support functions. New Bank's strategic structure is in force since its implementation moment, which is October of last year, and now the largest part of structural units of the Bank complied with its assigned functions. A complete migration of the Bank to a new structure is planned to be completed by March 31, 2002.

In the first half of 2000, the Bank changed its legal address from Aizkraukle to Riga. The new legal address of the Bank is 23 Elizabetes Str., Riga where the headquarters are located.

The previous year was characterized by a dynamic change in personnel development of the Bank. The number of staff working in the Bank increased by 36, reaching 188 employees, a 24% increase from 1999.

In order to provide prompt service for its Customers the Bank continued to modernize its IT system in 2000. One of the

substantial achievements in this area was the installation and implementation of a new payment card system "Transmaster", which allowed the Bank's staff to respond to Customers' requests, hence ensure prompt and accurate information on transactions with the cards and account balances. As a result, a significant improvement in the operation of a newly established Customers information service, Client line, which necessity has been directly related to the Bank's mission – prompt and convenient fulfilment of customers' needs, has been achieved in 2000.

According to the Bank's strategy, which also anticipates the opening of new clearing centres in economically active districts of Riga and Jurmala, Aizkraukles Banka opened a new clearing unit "Motors" on 40 Krasta Str., Riga in the newly built showroom of Chrysler/Jeep. For the Bank's Customers convenience it is planned to open three more clearing centres that will significantly improve the availability of the Bank's services.

As the number of local corporate Customers is constantly increasing, there is a need to form a VIP Customer Service Department where the most qualified of the Bank's employees will serve the needs of the Customer, being focused on the firmness and sound growth of the Customer. The system of the VIP Customer Service Department would be very similar to the Private Banking Department of the International Division, but being focused on specific local corporate Customers.

During the last year five Automatic Teller Machines were installed – starting the development of the Bank's own ATM network.

The activities that were undertaken during the year significantly increased the intensity and the quality of services provided, therefore ensuring the Bank met its anticipated revenues.

During 2000, the assets of the Bank increased by 19 million lats in total reaching 84 million lats, representing a 29% increase compared to 1999.

The deposit base of the Bank at the end of the year was 73.3 million lats, 13 million lats (or 22%) more than in 1999.

During 2000, increased operations with foreign Customers significantly affected the overall growth of the Bank.

Continuing the historical trends, the largest business of the Bank is derived from serving non-resident clientele, specifically

focusing on foreign Customers operations, and also ensuring a flexible deposit program that enables the free resources of Customers to remain within the Bank.

The credit portfolio of the Bank has increased to 19 million lats (or 90%) relative to 1999 maintaining high quality of the credit portfolio. The increase of the credit portfolio of the Bank is the largest compared to increases in the credit portfolios of other commercial banks in Latvia.

The Bank is continuing to employ careful risk management for capital, not to be put under unnecessary risks.

The Bank's total credit portfolio is compiled of 91% of loans to residents, of which 45% is issued to individuals and 55% to corporate Customers. The significant increase in the credit portfolio was mainly reached though the considerable increase in loans to individuals which, compared to 1999, has increased 2.6 times up to 7.6 million lats. Loans to corporates during the year increased by 58% and reached 11.2 million lats.

In December 2000, the Bank started to offer consumer loans together with a new payment card-financing program. Due to this specific reason the Bank anticipates that in year 2001 the payment cards receivables will reach 1 million lats and the number of Bank cards will increase up to 8 thousand.

Return on Assets (ROA) at the end of the year 2000 was 7.99% and Return on Equity (ROE) was 76.22%. These ratios indicate sound and safe development potential of the Bank in the future. Traditionally, the Bank has maintained high liquidity – 78%.

Compiling the financial results of the Bank presented to shareholders and Customers for the year ending 31 December 2000, reported profit was 5.3 million lats – two times higher than the initially anticipated figure.

In co-operation with travel and tourism agencies, the Bank anticipates issuing payment cards to travellers utilizing a specially developed financing program. Next year, the Bank will start to offer and service *VISA* and *VISA Electron* payment cards that will make consumer loans much more accessible. The further development of new ATMs is planned to continue in the year 2001 with an anticipated total of 12 machines. For more convenient usage of payment cards, the Bank is planning to conclude a co-operation agreement with another commercial bank in Latvia for utilization of ATM network throughout the territory of Latvia.

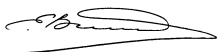
Meeting the needs of private Customers will remain as one of the main focuses of the Bank including mortgage loans, retail banking, account management and payment cards.

Recently there has been an increase in the number of Customers that use more intensively the account management means, software "Bank-Customer" through modem and software suit "Internet Banking". During the last year, account management utilization represented 80-85% of total non-resident customer transactions. This implies that there is a genuine interest about these services and in the future it is planned to increase even more. Due to this reason during the year 2001 the Bank anticipates significantly improving the operations of this system to make it even more beneficial for Customers.

The renovation of the headquarters building in Riga, 23 Elizabetes street has been started and is expected to be finished by spring of 2002. The Bank will continue to increase the market share via attracting new Customers and assessing merger or acquisition possibilities.

The management of the Bank sincerely thanks its Customers and undertakes in the future to serve in the best interest of its Customers, following the concept of stability and professionalism.

Chairman of the Council,



Ernests Bernis

Chairman of the Board,



Aleksandrs Bergmanis

Riga, 9 February 2001

POLITICAL AND ECONOMIC SITUATION IN LATVIA

For the year 2000, indicators for fundamental sectors of the national economy showed improvement and there was rapid development in the banking sector. The significant growth of banking sector indicators was largely determined by the activation of domestic business and by the increased volume of non-resident assets. Gross domestic product and payment balance indicators witnessed positive trends in Latvian national economy. Compared to last year, the gross domestic product increased by 5.7%.

As part of precautionary measures against the "Y2K threat", the banking industry had raised its liquidity ratios. Subsequently, in the beginning of the year 2000, there was a gradual decrease in liquidity ratios. Money market interest rates continued to decrease. The change in government did not affect the macroeconomic situation. The increase in economic activity and seasonal employment secured a decrease in unemployment levels to 7.8% and the annual inflation rate was approximately 2.6%.

The stability within the banking sector was characterized by growth in capital gains, increased volume of domestic credit and increased foreign assets. The greatest increases occurred in both domestic corporate and private deposits. Compared to 1999 levels, deposits increased by 573 million lats, or by 44%, reaching as high as 1.887 billion lats. Loans increased by 236 million lats, a 28% increase, reaching 1.087 billion lats.

Latvia's national credit rating received a positive evaluation by the international credit rating agencies, *Fitch IBCA*, and *Standard and Poor's*. These evaluations boosted financial markets by affirming that Latvia provides a stable macroeconomic environment for investment. Accumulated direct foreign investment in Latvia, in the third quarter of 2000, finished at 1.2053 billion lats. Compared to the end of 1999, accumulated direct foreign investments increased by 148.1 million lats or by 14%. The biggest growth was observed in real estate transactions, manufacturing, energy utilities and financial services.

Mergers, consolidations, and restructuring of Latvia's commercial banks continued. At the beginning of the year, *Merita Nordenbanken* announced the acquisition of the Riga branch of *Societe Generale*. In February, *Ventspils Apvienotā Baltijas Banka* shareholders accepted a merger with *Hansabanka* and decided to sell the entire 100% of *Ventspils ABB* shares. In May, German *Norddeutsche Landesbank* signed a contract to acquire controlling shares of *Pirmā Latvijas Komercbanka*. *Skandinaviska Enskilda Banken* bought back shares of *a/s Latvijas Unibanka* at a comparatively high price, thus gaining 98.2% of the ownership.

Data from the Monetary Bulletins of the Bank of Latvia and the Central Statistical Bureau.

MANAGEMENT OF THE BANK

The Council of the Bank consists of three members as follows:

Chairman of the Council

Ernests Bernis

Head of International Division

Deputy Chairman of the Council

Jānis Krīgers

Member of the Council

Vladimirs Kutovojs

On 27 March 2000 the Shareholders' Meeting removed Jānis Krīgers from the position of the Chairman of the Council, Zane Kurzemniece from the position of the Deputy Chairperson of the Council, Aleksandrs Pāže, Pāvels Šnejersons and Tatjana Rudziša from the positions of Members of the Council, Dmitrijs Belousovs from the position of a candidate for the Member of the Council and appointed Ernests Bernis, Jānis Krīgers and Vladimirs Kutovojs in the Council. On 27 March 2000 the meeting of the Council appointed Ernests Bernis as the Chairman of the Council and Jānis Krīgers as the Deputy Chairman of the Council.

The Board of the Bank consists of six members and one candidate as follows:

Chairman of the Board

Aleksandrs Bergmanis

Deputy Chairman of the Board

Oļegs Fiļs

Head of Financial Market Division

Members of the Board:

Zane Kurzemniece

Head of Accounting Division, Chief Accountant

Aleksandrs Pāže

Head of Administrative and Legal Division

Pāvels Šnejersons

Head of Customer Service Division

Aivars Rauska

Deputy Head of Customer Service Division

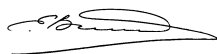
Candidate

Māris Kannenieks

Head of Dealing Department

On 27 March 2000 the Shareholders' Meeting removed Ernests Bernis from the position of the Deputy Chairman of the Board and Tatjana Lukjaņuka from the position of a candidate for the Member of the Board and appointed Zane Kurzemniece, Aleksandrs Pāže, Pāvels Šnejersons, Aivars Rauska as Members of the Board, and Māris Kannenieks as a candidate for the Member of the Board.

Chairman of the Council,



Ernests Bernis

Chairman of the Board,



Aleksandrs Bergmanis

Rīga, 9 February 2001


STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of the Bank is responsible for the preparation of the financial statements of the Bank. The financial statements are prepared in compliance with requirements of the Law on Credit Institutions, regulations of the Bank of Latvia and other legislation of the Republic of Latvia applicable for credit institutions.

The financial statements on pages 7 to 22 are prepared in accordance with the source documents and present fairly the financial position of the Bank as of 31 December 2000 and 1999, and the results of its operations, changes in the shareholders' equity and cash flows for the years then ended.

The 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 the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank.

Chairman of the Council,  Ernests Bernis

Chairman of the Board,  Aleksandrs Bergmanis

Riga, 9 February 2001

INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999 (LVL)

	Notes	2000	1999
Interest income	3	5,904,592	3,134,708
Interest expense	3	(2,153,953)	(1,087,609)
Net interest income		3,750,639	2,047,099
Dividends received		7,589	13,520
Commission and fee income	4	2,643,927	2,332,267
Commission and fee expenses	4	(801,927)	(646,974)
Net commission and fee income		1,842,000	1,685,293
Profit on securities, trading and foreign exchange, net	5	1,507,519	995,957
Other operating income	6	716,267	26,706
Operating income		7,824,014	4,768,575
Administrative expenses	7	(1,821,753)	(1,391,436)
Amortisation and depreciation charge	16	(381,432)	(317,898)
Other operating expense		-	(4,674)
Provision expense for possible credit losses	8	(1,193,796)	(3,766,682)
Release of previously established provisions	8	1,078,972	186,794
Profit/(loss) before taxation		5,506,005	(525,321)
Taxes	9	(175,008)	(50,162)
Profit/(loss) for the year		5,330,997	(575,483)

Chairman of the Council,  Ernests BernisChairman of the Board,  Aleksandrs Bergmanis


Riga, 9 February 2001

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

BALANCE SHEETS AND MEMORANDUM ITEMS AS AT 31 DECEMBER 2000 AND 1999 (LVL)

Assets	Notes	31.12.2000.	31.12.1999.
Cash and deposits with the Bank of Latvia	10	5,246,593	5,914,723
Due from credit institutions	11	34,548,541	26,583,813
Loans	12	18,242,909	9,440,495
Treasury bills and other fixed income securities	13	22,589,003	17,756,982
Shares and other non-fixed income securities	14	20,267	1,132,078
Investments in subsidiaries and associated entities	15	-	93,834
Intangible fixed assets	16	-	160
Tangible fixed assets	16	2,697,170	2,631,863
Other assets	17	203,032	225,128
Prepayments and accrued income	18	717,356	1,375,732
Total assets		84,264,871	65,154,808
Funds under trust management	25	139,793	229,933
Total assets and funds under trust management		84,404,664	65,384,741
Liabilities and shareholders' equity			
Balances due to credit institutions	19	3,855,289	6,209,073
Deposits	20	69,420,597	53,814,330
Other liabilities	21	426,678	263,211
Deferred income and accrued expenses	22	503,264	257,883
Provisions for liabilities and charges	23	166,488	48,753
Shareholders' equity	26	9,892,555	4,561,558
Paid-in share capital		5,000,000	5,000,000
Share premium		254,676	254,676
Legal and other reserves		1,001,790	1,001,790
Accumulated deficit for prior years		(1,694,908)	(1,119,425)
Retained earnings (accumulated deficit)		5,330,997	(575,483)
Total liabilities and shareholders' equity		84,264,871	65,154,808
Funds under trust management	25	139,793	229,933
Total liabilities and shareholders' equity and funds under trust management		84,404,664	65,384,741
Memorandum items			
Contingent liabilities	24	996,891	1,675,497
Financial commitments	24	2,911,508	1,966,633
Foreign exchange transactions, net	24	(175,612)	210,721
Other futures contracts, net	24	(23,625)	-

Chairman of the Council,



Ernests Bernis

Chairman of the Board,



Aleksandrs Bergmanis

Riga, 9 February 2001

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999 (LVL)

	Paid-in share capital	Share premium	Legal and other reserves	Retained earnings (accumulated deficit)	Total shareholders' equity
As of 1 January 1999	5,000,000	254,676	1,001,790	(1,119,425)	5,137,041
Loss for 1999	-	-	-	(575,483)	(575,483)
As of 31 December 1999	5,000,000	254,676	1,001,790	(1,694,908)	4,561,558
Profit for 2000	-	-	-	5,330,997	5,330,997
As of 31 December 2000	5,000,000	254,676	1,001,790	3,636,089	9,892,555

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999 (LVL)

	2000	1999
Cash inflow/(outflow) from operating activities		
Profit/(loss) before taxation	5,506,005	(525,321)
Amortisation and depreciation of intangible and tangible fixed assets and other write-offs	427,940	317,898
(Increase)/decrease in provision for possible credit losses	(2,689,231)	3,562,684
Loss/(profit) from revaluation of foreign currency	123,320	(29,093)
Decrease/(increase) in other assets	24,681	(41,020)
Decrease/(increase) in prepayments and accrued income	654,365	(1,282,939)
Increase/(decrease) in other liabilities	116,113	(139,574)
Increase in deferred income and accrued expense	245,381	31,340
Increase in provisions for liabilities and charges	14,735	17,503
Increase in cash and cash equivalents before changes in assets and liabilities, as result of ordinary operations	4,423,309	1,911,478
Decrease/(increase) in short-term investments	1,156,937	(1,013,495)
(Increase)/decrease in balances due from credit institutions	(275,116)	3,044,873
(Increase) in loans	(8,924,641)	(4,452,885)
Increase/(decrease) in balances due to credit institutions	116,527	(4,721,606)
Increase in deposits	15,606,267	21,259,809
Increase in cash and cash equivalents from operating activities	12,103,283	16,028,174
(Paid taxes)	(24,656)	(50,162)
Cash inflow (outflow) from investing activities		
(Purchase) of tangible fixed assets, net	(493,086)	(392,448)
Sale of equity investments and other long-term investments	(1,889,011)	(11,102,088)
Sale of tangible fixed assets	2,099	13,908
Decrease in cash and cash equivalents from investing activities	(2,379,998)	(11,480,628)
Cash inflow/(outflow) from financing activities		
Dividends paid	(210)	(245)
Decrease in cash and cash equivalents from financing activities	(210)	(245)
Net increase in cash and cash equivalents for the year	9,698,419	4,497,139
Cash and cash equivalents at the beginning of the year	25,916,742	21,390,510
(Loss)Profit from revaluation of foreign currency	(123,320)	29,093
Cash and cash equivalents at the end of the year	35,491,841	25,916,742

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

(Figures in parenthesis represent figures as of 31 December 1999, unless otherwise stated).

JSC "Aizkraukles banka" was registered in Aizkraukle, the Republic of Latvia, on 17 September 1993, as a joint-stock company. The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia.

According to the decision of the ordinary Shareholders' Meeting of 27 March 2000, the legal address of JSC "Aizkraukles banka" was changed from 8 Skolas Str., Aizkraukle, to 23 Elizabetes Str., Riga, which was registered in the Enterprise Register on 12 May 2000.

The Bank has branches in Riga, Aizkraukle and Jēkabpils, and three sub-branches in Riga. The main activities of the Bank are granting loans, money transfers and foreign exchange transactions. The licence granted to the Bank permits the performance of all banking operations as provided under the Law on Credit Institutions, except for accepting new funds under trust management and prolonging existing trust agreements as disclosed in Note 25.

2. 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 financial statements are reported in lats (LVL), unless otherwise stated.

b) Basis of Accounting

These 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 the stipulations of the Bank of Latvia.

c) Basis of Presentation

The financial statements are presented in accordance with IAS and the Instructions on the Presentation of Financial Statements of Credit Institutions passed by the Bank of Latvia.

d) Income and Expense Recognition

Interest income and expense items are recognised on the accrual basis. No interest income is recognised on non-performing loans (see paragraph j)). Recognition of interest income is suspended at the time when there appears uncertainty as to the recoverability of principal or interest of a particular loan. The accrued interest receivable is provided for since the moment when the interest recognition is suspended.

e) Provision for Employee Holiday Pay

The provision for employee holiday pay is estimated for the Bank's personnel based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense pursuant to the Republic of Latvia Labour Code and related social insurance contributions.

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at actual rates of exchange set forth by the Bank of Latvia at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange set forth by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in rates of exchange is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

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

Reporting date	USD	RUB	EUR
31 December 2000	0.613	0.0216	0.570042
31 December 1999	0.583	0.0213	0.587516

g) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 25% and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets, and tax losses carried forward.

h) Loans

Loans represent the outstanding principal balance less provisions for losses as presented in Note 8.

For the purposes of these financial statements, financial lease receivables are classified as loans.

i) Leases

Finance leases, which confer rights and obligations similar to those attached to owned assets, are recognised as assets and liabilities at amounts equal at the inception of the lease to the fair value of the leased property, or, if lower, at the present value of the minimum lease payments. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

Rentals under operating lease are charged to the statement of income on a straight-line basis over the lease term.

j) Provisions for Possible Credit Losses

Non-performing loans including credit institutions are defined as loans and other credit balances in which contractually due principal is 30 days or more overdue, contractually due interest is 90 days or more overdue, or the Management otherwise believes that the contractual interest or principal due will not be collected.

The Bank issues commercial and consumer loans to customers throughout its market area. The Management of the Bank has considered both specific and general risks in determining the balance of provisions for possible loans losses. Provisions for possible loans losses are established in accordance with IAS and requirements of the Bank of Latvia and represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The specific provision is determined after individually reviewing all loans for potentially

uncollectable amount and is based on customer's financial position, value of collateral, fulfilment of a loan agreement and compliance with the loan exposure limits determined by the Bank of Latvia. The general element of the provision relates to the potential losses, which experience indicates are present in the Bank's portfolio of loans.

When a loan has been classified as non-performing or of high risk, a provision for possible loan losses is established for that specific loan or advance for the amount of the outstanding balance which is deemed uncollectable. The value of collateral held in connection with loans is based on the estimated realisable value of the asset and is taken into account when estimating the required provision.

The provision for possible loan losses is composed of the following:

- specific provision for loan exposures identified as potentially doubtful and high risk;
- general provision for the Bank's total exposure to:
 - loan concentration risk;
 - collateral values;
 - possible measures implemented to improve impaired customers' financial position ;
 - general market or operating events that have or have yet to occur, prior/or subsequent to the balance sheet date, for which a specific credit risk provision is not yet quantifiable.

The level of the provisions is based on estimates determined considering the relevant factors including, but not limited to, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans, adverse situations that may affect the borrowers' ability to repay loans, estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting the loans collectability and collateral values. The ultimate losses may vary from the current estimates.

The above estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The Management of the Bank has made their best estimate of losses and believes that the estimates presented in the financial statements to be reasonable in light of the available information.

When loans can not be recovered, they are written off to off-balance sheet accounts and charged against provision for possible credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

k) Treasury Bills and Other Fixed Income Securities

Treasury bills and other fixed income securities are held both for investment and trading purposes. The split of fixed income securities held for investment and trading purposes is based in the Management's intention to hold these instruments.

Fixed income securities held for investment purposes are stated at purchase price adjusted for amortised discount/premium. The discount received/premium paid at the moment of purchase is amortised on a straight-line basis over the period from purchase to maturity.

Provisions for fixed income securities are established where, in the opinion of the Bank's Management, a non-temporary diminution occurred. Such fixed income securities are stated at cost less provisions established.

l) Shares and Other Non-fixed Income Securities

Investments in listed shares held for trading purposes are stated at their market value.

Unrealised profits or losses arising as a result of stating listed shares at market value are respectively credited or charged to the statement of income as profit or loss from revaluation of securities.

Unlisted shares held for investment purposes are stated at cost less any provision established due to non-temporary diminution in their value.

m) Investments in Subsidiaries

Investments in subsidiaries, in which the Bank holds directly or indirectly more than 50% of the shares and voting rights, are normally consolidated in the Bank's financial statements, except as discussed in Note 15.

n) Tangible Fixed Assets

Tangible fixed assets are recorded at historical cost less accumulated depreciation. If the 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 value.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under the course of reconstruction and preparation are not depreciated.

The following depreciation rates have been applied:

Category	Annual rate	
	2000	1999
Buildings and property improvements	5%	5%
Transport vehicles	20%	20%
EDP equipment	25%	25%
Office equipment	10-33%	10-33%

Maintenance and running repair costs are expensed as incurred. Leasehold improvements are capitalised and amortised over the remaining period of lease contract on a straight-line basis.

o) Financial Instruments

Derivatives

In the normal course of business, the Bank is a party to for swap, futures and forward foreign contracts.

Assets and liabilities arising from such deals are recorded in off-balance sheet items at the rate of exchange prevailing at the end of the reporting year. Gains or losses resulting from changes in rates of exchange subsequent to the date of the transaction are recognised in the statement of income as a profit or loss from revaluation of foreign currency positions.

Other off-balance sheet instruments

In the ordinary course of business, the Bank has been involved in off-balance sheet financial instruments consisting of commitments to extend loans, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for loans as described in paragraph j).

p) Funds Under Trust Management

Funds under trust management are funds managed by the Bank on behalf of its customers. These funds are not regarded as assets of the Bank and, therefore, they are not included in the balance sheet.

q) Fair Value of Financial Assets and Liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of the

Management, the fair values of financial assets and liabilities differ materially from their carrying values, such fair values are separately disclosed in the notes to the financial statements.

r) Cash and Cash Equivalents

Cash and cash equivalents represent the amounts comprising cash and demand deposits, term deposits with an original maturity of 3 months or less with the Bank of Latvia and other credit institutions, short-term state treasury bills with an original maturity of 3 months or less, less demand deposits and term deposits with original maturity of 3 months or less with other credit institutions.

3. INTEREST INCOME AND EXPENSES (LVL)

Interest income	2000	1999
- interest on balances due from credit institutions	1,649,757	1,100,545
- interest on loans	2,071,590	1,031,231
- interest on treasury bills and other fixed income securities	2,173,247	1,001,552
- other interest income	9,998	1,380
Total interest income	5,904,592	3,134,708

Interest expenses

- interest on balances due to credit institutions	91,632	193,706
- interest on non-bank deposits	2,025,471	861,945
- other interest expenses	36,850	31,958
Total interest expenses	2,153,953	1,087,609

4. COMMISSION AND FEE INCOME AND EXPENSES (LVL)

Commission and fee income	2000	1999
- commission on payment transfers on behalf of customers	1,673,066	1,228,914
- cash disbursement/ transaction commission	241,855	692,062
- commission on transactions with settlement cards	204,166	122,361
- service fees	196,352	136,531
- commission on granting loans	116,589	53,305
- commission on letters of credit	78,945	37,707
- commission on transactions with cheques	19,483	8,018
- other commission and fee income	113,471	53,369
Total commission and fee income	2,643,927	2,332,267

Commission and fee expenses

- correspondent bank service charges	382,904	260,452
- inter-bank and other communication system charges	254,145	219,061
- commission on transactions with settlement cards	109,307	31,457
- information services	24,211	-
- commission on transactions with securities	6,719	6,398
- other commission and fee expenses	24,641	129,606
Total commission and fee expenses	801,927	646,974

5. PROFIT ON SECURITIES, TRADING AND FOREIGN EXCHANGE, NET (LVL)

	2000	1999
Profit on dealing with currency exchange	1,104,901	657,078
Profit from trading with securities	716,563	154,494
(Loss)/Profit from revaluation of securities	(190,625)	155,292
(Loss)/Profit from revaluation of foreign currency positions	(123,320)	29,093
Profit on securities trading and foreign exchange, net	1,507,519	995,957

6. OTHER OPERATING INCOME (LVL)

	2000	1999
Income from operations with securities	415,485	-
Income from sale of investments in related entities	239,613	-
Rental income	23,380	13,006
Other income	37,789	13,700
Total other operating income	716,267	26,706

In June 2000 the Bank, using market differences in prices of Ukrainian state bonds denominated in EUR and US dollars, exchanged all EUR bonds to US dollar bonds keeping the investment at the nominal value and not increasing their balance sheet value. As result of the transaction, the Bank recognised commissions of LVL 415 000.

7. ADMINISTRATIVE EXPENSES (LVL)

	2000	1999
Remuneration of the Council and the Board of Directors	130,831	9,492
Remuneration of other personnel	712,503	674,140
Social security contributions and related costs	209,563	186,798
Communications	136,866	121,605
Advertising and marketing	124,155	67,171
Security	96,237	20,332
Maintenance and repair of premises	90,726	34,258
Technical maintenance costs	62,180	56,415
Office supplies	53,000	34,992
Business trips	38,462	13,706
Donations	18,118	16,747
Consulting and other professional services	18,040	37,279
Insurance	13,852	8,521
Training of staff	12,216	5,206
Other administrative expenses	105,004	104,774
Total administrative expenses	1,821,753	1,391,436

In 2000 the average number of Bank employees was 170 (157). The following table specifies employees of the Bank by personnel categories.

Number of employees	31.12.2000.	31.12.1999.
Management	9	7
Other managing personnel and officers	150	104
Other personnel	29	41
Total	188	152

8. PROVISION EXPENSES FOR POSSIBLE CREDIT LOSSES AND RELEASE OF PREVIOUSLY ESTABLISHED PROVISIONS (LVL)

	2000	1999
Specific provisions at the beginning of the year	3,569,838	4,069,122
General provisions at the beginning of the year	103,764	131,778
Total provisions at the beginning of the year	3,673,602	4,200,900
Specific provisions charged to income statement	968,096	3,766,682
General provisions charged to income statement	225,700	-
Total provisions charged to income statement	1,193,796	3,766,682
Release of previously established specific provisions	(1,078,972)	(158,780)
Release of previously established general provisions	-	(28,014)
Total release of previously established provisions	(1,078,972)	(186,794)
Total provision expenses, net (Decrease) in provisions due to currency fluctuations	(18,619)	(17,204)
Reversal of specific provisions due to write-offs	(2,785,436)	(4,089,982)
Specific provisions at the end of the year	654,907	3,569,838
General provision at the end of the year	329,464	103,764
Total provisions at the end of the year	984,371	3,673,602

Based on the revised estimate of the fair value of Ukrainian state bonds, as described in Note 13, the Bank has established specific provisions in the amount of LVL 784 000 and charged it to the income statement for the year ended 31 December 2000.

The Bank's Management has evaluated its exposure to the inter-bank market and established general provisions in the amount of 2% of the average outstanding balances for the year due from credit institutions incorporated in CIS countries. The Management believes that it is prudent to comply with this policy and will continue to monitor the adequacy of the provision.

The Management has also adopted a policy to establish a general provision of 1.5% for non-zero risk performing loans and advances to corporate customers and a 1% general provision for non-zero risk loans and advances to private individuals, as well as general provisions of 3% for unhedged settlement card loans. The Management of the Bank believes that such a provisioning policy is appropriate and prudent under the current circumstances.

The following table shows the structure of the total provisions established by the Bank for possible credit losses at 31 December 2000.

	Gross balance	Specific provision	General provision	Net Balance
Balances due from credit institutions	34,676,547	-	(128,006)	34,548,541
Loans	19,020,501	(576,134)	(201,458)	18,242,909
Investments in related entities	72,900	(72,900)	-	-
Prepayments and accrued income	723,229	(5,873)	-	717,356
Total	54,493,177	(654,907)	(329,464)	53,508,806

9. TAXES (LVL)

	2000	1999
Deferred tax	103,000	-
Corporate income tax	47,353	-
Real estate and property tax	24,655	50,162
Total taxes	175,008	50,162

As at 31 December 2000 the Bank has no overdue tax liabilities.

10. CASH AND DEPOSITS WITH THE BANK OF LATVIA (LVL)

	31.12.2000.	31.12.1999.
Cash	2,206,427	2,592,590
Deposits with the Bank of Latvia	3,040,166	3,322,133
Total cash and deposits with the Bank of Latvia	5,246,593	5,914,723

Deposits with the Bank of Latvia represent balance of correspondent account as of 31 December 2000.

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement set at 6% (7%). This compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia plus cash in LVL. As of 31 December 2000 the Bank is in compliance with this regulation.

11. DUE FROM CREDIT INSTITUTIONS (LVL)

	31.12.2000.	31.12.1999.
Due from credit institutions registered in OECD area	27,461,923	18,798,709
Due from credit institutions registered in Latvia	539,652	12,967
Due from credit institutions registered in other countries	6,674,972	7,816,827
Balances due from credit institutions	34,676,547	26,628,503
Less provisions for possible losses (see Note 8)	(128,006)	(44,690)
Total due from credit institutions, net	34,548,541	26,583,813

As of 31 December 2000 the Bank had established correspondent relationships with 20 (20) credit institutions registered in OECD area, 5 (4) credit institutions registered in Latvia and 33 (32) credit institutions registered in other countries.

Maturity profile	Balances due from credit institutions				
	OECD area	Latvia	Other countries	Total 31.12.2000.	Total 31.12.1999.
Correspondent account balances	12,744,090	39,652	5,885,251	18,668,993	12,412,065
Overnight deposits	4,225,323	-	546,480	4,771,803	1,635,198
Collateral deposits	644,665	-	-	644,665	629,740
Term deposits	9,847,845	500,000	243,241	10,591,086	11,951,500
Total balances due from credit institutions	27,461,923	539,652	6,674,972	34,676,547	26,628,503
Less provisions for possible losses (see Note 8)	-	-	(128,006)	(128,006)	(44,690)
Balances due from credit institutions, net	27,461,923	539,652	6,546,966	34,548,541	26,583,813

As at 31 December 2000 the Bank had inter-bank balances with six correspondent credit institutions incorporated in OECD area and six credit institutions incorporated in other countries where aggregate balance due from those credit institutions comprised 96% of total balances due from credit institutions incorporated in OECD area and other countries, respectively.

12. LOANS (LVL)

Loans	31.12.2000.	31.12.1999.
Regular loans	14,442,235	5,243,667
Overdraft facilities on		
current accounts	147,760	763,417
Utilised credit lines	3,853,343	3,775,575
Debit balances on credit cards	332,990	198,389
Finance leases	244,173	121,613
Total loans	19,020,501	10,102,661
Less provisions for possible losses (see Note 8)	(777,592)	(662,166)
Loans, net	18,242,909	9,440,495

The Latvian banking legislation requires that any credit exposure to a non-related entity or group of non-related entities may not exceed 25% of a credit institution's equity. The total credit exposure to all related parties may not exceed 15% of equity (for definition of the Bank's equity see Note 31).

As of 31 December 2000 the Bank was in compliance with the legal requirements set for the total amount of non-zero risk credit exposure to related parties and non-related entities.

The following table provides the amount of outstanding loans for which interest is not being accrued as of 31 December 2000.

Interest accrual basis	31.12.2000.	31.12.1999.
Accrual basis	18,364,235	9,208,443
Non-accrual basis	656,266	894,218
Total loans	19,020,501	10,102,661
Less provisions for possible losses (see Note 8)	(777,592)	(662,166)
Loans, net	18,242,909	9,440,495

The following table specifies outstanding loans by customer profile:

Customer profile	31.12.2000.	31.12.1999.
Privately held companies	11,039,436	6,853,589
Municipal enterprises	135,000	207,150
Public and religion organisations	3,790	-
Personnel	383,140	84,393
Other private individuals	7,459,135	2,957,529
Total loans	19,020,501	10,102,661
Less provisions for possible losses (see Note 8)	(777,592)	(662,166)
Loans, net	18,242,909	9,440,495

The following table specifies outstanding loans by geographical profile:

Geographical residence profile	31.12.2000.	31.12.1999.
Residents of the OECD area countries	1,050,580	1,117,251
Residents of Latvia	17,245,456	6,181,981
Residents of the non-OECD area countries	724,465	2,803,429
Total loans	19,020,501	10,102,661
Less provisions for possible losses (see Note 8)	(777,592)	(662,166)
Loans, net	18,242,909	9,440,495

The table below provides an industry analysis of loans granted to corporate customers:

Industry profile	31.12.2000.	31.12.1999.
Trading	5,229,388	4,476,040
Construction	1,860,266	12,377
Manufacturing	449,811	106,146
Agriculture and forestry	308,925	179,806
Transport and communications	296,364	387,207
Fishery	115,000	-
Hotel and restaurants	17,521	12,826
Financial intermediaries	4,365	11,000
Electricity, gas and other utilities	135,000	207,150
Other industries	2,757,796	1,668,187
Total gross loans to corporate customers	11,174,436	7,060,739

The outstanding financial lease portfolio is specified by assets leased as follows:

Type of assets	31.12.2000.	31.12.1999.
Transport vehicles	228,773	119,635
Other assets	15,400	1,978
Total gross finance leases	244,173	121,613

13. TREASURY BILLS AND OTHER FIXED INCOME SECURITIES (LVL)

	31.12.2000.	31.12.1999.
Government bonds and treasury bills	12,648,497	11,290,865
Bonds issued by credit institutions	7,612,876	9,074,531
Bonds issued by corporate entities	2,327,630	283,570
Total treasury bills and other fixed income securities	22,589,003	20,648,966
Less provisions for possible losses (see Note 8)	-	(2,891,984)
Total treasury bills and other fixed income securities, net	22,589,003	17,756,982

In accordance with a decree of the Ukrainian Ministry of Finance dated 26 August 1998, non-resident investors of Ukrainian UAH denominated treasury bills (OVDP) were offered to exchange their holdings, (UAH 1.7 billion), of such treasury bills for new discounted USD denominated bonds with maturity to the year 2000 (KOVDP).

Based on balances as of 22 September 1998, the Bank accepted the offer and exchanged UAH denominated Ukrainian treasury bills for USD denominated zero coupon bonds. The book value of the exchanged treasury bills amounted to UAH 46,788 thousand (LVL 8,843 thousand). The value of the exchanged treasury bills, as calculated by the Ukrainian Ministry of Finance utilising predetermined discounted rates, amounted to UAH 45,687 thousand (LVL 8,635 thousand). The difference has been expensed by the Bank in the income statement for the year ended 31 December 1998 as a loss from revaluation of securities. The revised balance (as per the Ukrainian Ministry of Finance) was exchanged for USD denominated bonds (maturing 22 September 2000) amounting to USD 16,042 thousand (LVL 9,369 thousand) utilising a fixed UAH/USD exchange rate of 2.848 to 1. The foreign exchange gain has been credited to the statement of income for the year ended 31 December 1998.

During 1999, the Bank accepted another offer of the Ukrainian government to exchange USD denominated zero coupon bonds for DEM denominated Ukrainian government bonds which mature on 26 February 2001 and bear a 16% coupon paid annually. As a result of accepting the aforementioned offer, the Bank exchanged USD denominated bonds with a nominal value of USD

11,680 thousand plus an additional cash investment of USD 1,314 thousand for DEM denominated bonds with a nominal value of DEM 19,410 thousand. The cost of the exchanged DEM denominated bond with a nominal value of DEM 18,309 thousand (94% of their nominal value). The USD denominated bonds exchange are accepted at a price of 75% of their nominal value. The gain arising from the difference between the average cost value of USD denominated Ukrainian government bonds and the price determined for the exchange has been set-off against the cost value of Ukrainian government bonds denominated in DEM.

On 4 February 2000 the Ukrainian government announced restructuring of its foreign debt that was successfully accepted by the majority of creditors who were subject to the restructuring offer. As a result, the Management of the Bank has revised their estimate of the fair value of Ukrainian government bonds based on available quotations of restructured Ukrainian government bonds and the term and conditions of the restructuring, and retrospectively adopted a policy to value Ukrainian government bonds denominated in DEM and USD respectively at 60% and 58% of their nominal value. As a result, the Bank has established a specific provision in the amount of LVL 2,892 thousand and charged it to the statement of income for the year ended 31 December 1999 (see Note 8). Accordingly, as at 31 December 1999, the carrying book value of Ukrainian government bonds denominated in USD and DEM was LVL 3,948 thousand and LVL 3,498 thousand, respectively.

On 15 March 2000 the Ukrainian government bonds denominated in DEM with initial maturity of 26 February 2001 were exchanged in accordance with their nominal value to the bonds denominated in EUR with repayment maturity in parts till 2007 and a coupon rate of 10%. The Bank has exchanged the non-coupon Ukrainian government bonds stated in USD with initial maturity of 22 September 2000 to the bonds denominated in the same currency applying a coefficient of 94.614% on the same repayment conditions and a coupon rate of 11%. After the exchange of the Ukrainian government bonds denominated in EUR and USD their balance sheet value was 60% and 61.30% of the nominal value, respectively. The exchange conditions stated that the coupons of old bonds should be accrued to 15 March 2000 and repaid at the end of the bond restructuring process. As result, on 18 April 2000 the Bank has received an accrued coupon payment.

In June 2000 the Bank, using the situation in the market, exchanged Euro denominated bonds for bonds denominated in USD, and the balance sheet

The Bank owns the following bonds with fixed income, stated by the purpose of acquisition:

	31.12.2000.		31.12.1999.	
	Short-term	Long-term	Short-term	Long-term
Ukrainian government bonds	-	7,265,073	-	10,338,476
Italian government bonds	-	616,391	-	590,748
Slovenian government bonds	-	-	-	179,672
Latvian government bonds	-	2,476,554	-	177,377
Russian government bonds	-	251,340	4,592	-
Turkish government bonds	-	649,568	-	-
South African government bonds	608,534	303,590	-	-
Bulgarian government bonds	-	477,447	-	-
Bonds issued by credit institutions incorporated in OECD area	-	7,323,099	-	9,074,531
Bonds issued by credit institutions incorporated in non-OECD area	-	289,777	-	-
Bonds issued by corporate entities registered in OECD area	570,924	904,877	-	-
Bonds issued by corporate entities registered in non-OECD area	-	851,829	-	283,570
Total treasury bills and other fixed income securities	1,179,458	21,409,545	4,592	20,644,374
Less provision for possible credit losses (see Note 8)	-	-	-	(2,891,984)
Total treasury bills and other fixed income securities, net	1,179,458	21,409,545	4,592	17,752,390

value of the investment amount has not been increased. As a result of the transaction, the Bank earned commissions of approximately LVL 415 thousand.

During the year the Ukrainian government proved its ability to process the external debt. On 19 December 2000, the International Monetary Fund (IMF) approved execution of Ukrainian extended financing program and re-established the Ukrainian rights to service the debt from IMF. Improvement of the situation in the area of processing of Ukrainian external debt is reflected in market prices for Ukrainian government bonds, which have increased during 2000. Assessing the situation, the Management of the Bank took a decision to

decrease the specific provision of LVL 784 thousand at the end of the year and to include it into the statement of income. Accordingly, the book value of Ukrainian government bonds denominated in USD as at 31 December 2000 was equal to LVL 7,265 thousand, or 68.72% of their nominal value, which did not exceed the market value of these bonds at the year end – 69.75%.

Amounts of unamortised discounts and premiums for treasury bills and other fixed income securities, except for Ukrainian government bonds, as at 31 December 2000, amounted to LVL 275 thousand and LVL 106 thousand, respectively.

The following table presents the classification investments made by the Bank in treasury bills and other fixed income securities by listed and unlisted securities on recognised stock exchanges:

	31.12.2000.		31.12.1999.	
	Listed	Unlisted	Listed	Unlisted
OECD area countries:				
Italian government bonds	616,391	-	590,748	-
Turkish government bonds	649,568	-	-	-
Bonds issued by credit institution	7,323,099	-	9,074,531	-
Bonds issued by corporate entities	1,475,801	-	283,570	-
Non-OECD area countries:				
Ukrainian government bonds	7,265,073	-	5,366,564	4,971,912
Slovenian government bonds	-	-	179,672	-
Russian government bonds	251,340	-	-	4,592
South African government bonds	912,124	-	-	-
Bulgarian government bonds	477,447	-	-	-
Bonds issued by credit institutions	289,777	-	-	-
Bonds issued by corporate entities	851,829	-	-	-
Latvian government bonds	2,476,554	-	177,377	-
Total treasury bills and other fixed income securities	22,589,003	-	15,672,462	4,976,504
Less provision for possible credit losses (see Note 8)	-	-	(1,868,195)	(1,023,789)
Total treasury bills and other fixed income securities, net	22,589,003	-	13,804,267	3,952,715

The market value of listed and unlisted bonds and securities with fixed income does not differ significantly from their book value. Accordingly, the market value of listed fixed income securities is not stated.

14. SHARES AND OTHER NON-FIXED INCOME SECURITIES (LVL)

	31.12.2000.	31.12.1999.
Equity shares in Latvian corporate entities	8,585	9,998
Equity shares in foreign corporate entities	11,682	1,122,080
Total shares and other non-fixed income securities	20,267	1,132,078

Anticipating unfavourable changes in the market, in April 2000 the Bank initiated a sale of corporate shares registered in OECD areas, and finished the process during August.

Investments in listed shares are held for trading purposes and are accounted for at their market value. Unlisted shares are held for investment purposes and are booked at cost.

The following table presents the investments made by the Bank in listed and unlisted shares and other non-fixed income securities:

	31.12.2000.			31.12.1999.		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Corporate entities registered in						
OECD area countries	-	11,682	11,682	847,580	12,015	859,595
Russian corporate entities	-	-	-	262,485	-	262,485
Latvian credit institutions	-	-	-	1,302	-	1,302
Latvian corporate entities	8,585	-	8,585	8,696	-	8,696
Total shares and other non-fixed income securities	8,585	11,682	20,267	1,120,063	12,015	1,132,078

15. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES (LVL)

The following table presents the Bank's investments in subsidiaries and associated entities at the end of the reporting year:

Name	Business profile	31.12.2000.		31.12.1999.	
		Cost value	Equity share (%)	Cost value	Equity share (%)
Investments in subsidiaries					
SIA "Veiksmen Elektroniks"	Trading	51,100	98%	51,100	98%
SIA "Riventa"	Trading	21,800	93%	21,800	93%
Total investments in subsidiaries		72,900	-	72,900	-
Less provision for possible credit losses (see Note 8)					
		(72,900)	-	(72,900)	-
Total investments in subsidiaries, net		-	-	-	-
Investments in associated entities					
SIA "Banku Servisa Centrs"	Financial intermediary	-	-	93,834	24%
Total investments in associated entities		-	-	93,834	24%

The following table shows movements in the cost value of the Bank's investments in subsidiaries and associated entities during the reporting year:

Investment cost value	SIA "Veiksmen Elektroniks"	SIA "Riventa"	SIA "Banku servisa centrs"	Total
As at 1 January 2000	51,100	21,800	93,834	166,734
Contributions into share capital	-	-	-	-
Sale of investments	-	-	93,834	93,834
As at 31 December 2000	51,100	21,800	-	72,900

Prior to the acquisition, the Bank had granted credit facilities to both subsidiaries. In 1998 the Bank acquired 55% of SIA "Veiksmen Elektroniks" shares and 52% of SIA "Riventa" shares in order to obtain control over the operations of the borrowers.

The Management of the Bank considered these investments to be temporary, as they were acquired and held exclusively with a view to their subsequent disposal after the recovery of granted credit facilities, and, accordingly, consolidated financial statements were not prepared for the year ended 31 December 2000.

However, during 1999 the financial position of both companies did not improve to the extent that all granted credit facilities could be fully recovered. At the end of the year, the Bank resolved to acquire additional shares of both companies in order to establish full control over those operations, and to dispose of the companies by May 2000. Accordingly, consolidated financial statements were not prepared for the year ended 31 December 1999.

During 2000, the sale of SIA "Veiksmen Elektroniks" and SIA "Riventa" could not be realised, therefore, there was initiated a sale of assets of the mentioned companies, and the sale was completed by the end of the year. As of 31 December 2000, the Bank has revalued the loans granted to SIA "Veiksmen Elektroniks" and SIA "Riventa" as uncollectible and established respective pro-

visions. The Management of the Bank took a decision to initiate the liquidation of both companies in the beginning of 2001, and to finish the process during the year. Therefore, these subsidiaries have not been consolidated in the financial statements for the year ended 31 December 2000.

16. TANGIBLE AND INTANGIBLE FIXED ASSETS (LVL)

	31.12.2000.	31.12.1999.
Land	108,006	117,760
Buildings and property improvements	1,625,716	1,720,359
Leasehold improvements	19,534	20,384
Transport vehicles	152,303	182,803
Office equipment		
EDP equipment	445,560	184,402
Other tangible fixed assets	337,768	388,484
Prepayments for tangible fixed assets	8,283	17,671
Total tangible fixed assets	2,697,170	2,631,863
Intangible fixed assets	-	160
Total net book value of fixed assets	2,697,170	2,632,023

Movements in the Bank's tangible fixed assets during the year ended 31 December 2000 were as follows:

						Total tangible fixed assets less prepayments
	Land	Buildings and property improvements	Leasehold improvements	Transport vehicles	Office equipment	
Historical cost						
As at 1 January 2000	117,760	1,924,037	20,551	274,068	1,680,940	4,017,356
Additions	-	15,447	1,500	17,274	454,025	488,246
Disposals	(9,754)	(21,850)	-	(4,565)	(71,000)	(107,169)
As at 31 December 2000	108,006	1,917,634	22,051	286,777	2,063,965	4,398,433
Accumulated depreciation						
As at 1 January 2000	-	203,678	167	91,265	1,108,054	1,403,164
Charge for the year	-	89,916	2,350	47,424	242,785	382,475
Depreciation write-off	-	(1,676)	-	(4,215)	(70,202)	(76,093)
As at 31 December 2000	-	291,918	2,517	134,474	1,280,637	1,709,546
Net book value						
As at 1 January 2000	117,760	1,720,359	20,384	182,803	572,886	2,614,192
As at 31 December 2000	108,006	1,625,716	19,534	152,303	783,328	2,688,887
Depreciation rate (straight-line method)	-	5%	10%	20%	10-33%	-

17. OTHER ASSETS (LVL)

	31.12.2000.	31.12.1999.
Cash held for security brokerage company	47,988	153,102
Input VAT for finance lease	39,483	20,025
Clearing balances related to credit cards	33,317	22,938
Other short-term assets	82,244	29,063
Total other assets, net	203,032	225,128

In order to enter into transactions with securities, the Bank has opened accounts with two brokerage companies registered in OECD countries. During 1999 the Bank, through one of the companies, performed arbitrage transactions with equity shares of US corporate entities. Cash held on the account mainly represents the security for the Bank's equity share borrowings (see Note 21).

During the year ending 31 December 2000, in order to restrict interest rate risk for bond exposures which were acquired for an indefinite period of time, the Bank opened listed futures contracts. The net balance of the account with the brokerage company as at 31 December 2000 consists of a security instalment and unrestricted cash.

18. PREPAYMENTS AND ACCRUED INCOME (LVL)

	31.12.2000.	31.12.1999.
Accrued interest receivable	573,188	1,147,540
Accrued income from sale of related entity shares	120,000	-
Unrealised gain on outstanding FX transactions	-	203,904
Prepayments	28,312	19,701
Other accrued income	1,729	6,449
Total prepayments and accrued income	723,229	1,377,594
Less provision for possible credit losses (see Note 8)	(5,873)	(1,862)
Total prepayments and accrued income, net	717,356	1,375,732

As at 31 December 1999, accrued interest receivable includes accrued coupon on Ukrainian government bonds denominated in DEM in the amount of LVL 788 thousand. The coupon was originally due on 26 February 2000, however, based on the terms and conditions of subsequent restructuring of Ukraine foreign debt, the payment of coupon was postponed to April 2000.

19. BALANCES DUE TO CREDIT INSTITUTIONS (LVL)

The following table provides an analysis of balances due to credit institutions by their maturity:

	31.12.2000.	31.12.1999.
Balances repayable on demand	1,273,333	5,705,244
Collateral deposits	742,956	503,829
Term deposits	1,839,000	-
Total balances due to credit institutions	3,855,289	6,209,073

All balances due to credit institutions represent balances due to credit institutions registered in non-OECD countries.

At 31 December 2000 the Bank had outstanding balances due to three credit institutions, which comprised 88% of the aggregate amount of the Bank's outstanding balances due to credit institutions.

20. DEPOSITS (LVL)

The following tables show deposits by sector profile and geographical profile of customer's residence:

Sector profile	31.12.2000.	31.12.1999.
Privately held companies	52,527,203	40,400,898
Private individuals	16,338,783	12,978,568
Municipalities	399,613	279,989
State enterprises	116,849	106,988
Public and religious organisations	21,096	16,279
Central governments	16,928	31,118
Privately held financial institutions	125	490
Total deposits	69,420,597	53,814,330

Geographical profile of customers' residence

customers' residence	31.12.2000.	31.12.1999.
Residents	4,220,089	2,572,936
Non-residents	65,200,508	51,241,394
Total deposits	69,420,597	53,814,330

21. OTHER LIABILITIES (LVL)

	31.12.2000.	31.12.1999.
Suspense amounts	176,716	96,989
Money in transit	132,093	-
Corporate income tax	47,353	-
Other liabilities	70,516	40,976
Liabilities arising from equity share borrowings	-	125,246
Total other liabilities	426,678	263,211

Liabilities arising from equity share borrowings relate to shares of US corporate entities (see Note 17).

Suspense amounts are comprised of outstanding incoming transfers where the payment details are not specified to the extent that the Bank has reasonable assurance to place these balances on the respective customer accounts.

22. DEFERRED INCOME AND ACCRUED EXPENSES (LVL)

	31.12.2000.	31.12.1999.
Accrued interest payable	226,664	192,809
Unrealised loss from uncompleted foreign exchange transactions	179,784	-
Accrued administrative and commission expenses	73,191	65,074
Unrealised loss from listed futures contracts	23,625	-
Total deferred income and accrued expenses	503,264	257,883

23. PROVISIONS FOR LIABILITIES AND CHARGES (LVL)

	31.12.2000.	31.12.1999.
Deferred tax	103,000	-
Provision for employee holiday pay	62,508	47,563
Dividends	980	1,190
Total provisions for liabilities and charges	166,488	48,753

24. MEMORANDUM ITEMS (LVL)

	31.12.2000.	31.12.1999.
Contingent liabilities		
Letters of credit	635,736	1,471,002
Outstanding guarantees	361,155	204,495
Total contingent liabilities	996,891	1,675,497
Financial commitments		
Loans granted	1707,528	936,188
Undrawn credit lines	1,203,980	1,030,445
Total financial commitments	2,911,508	1,966,633
Total contingent liabilities and financial commitments	3,908,399	3,642,130

Unpaid loans include unused limits of settlement cards of LVL 1,301,018.

	31.12.2000.	31.12.1999.
Foreign exchange transactions		
Spot foreign exchange receivable	1,795,848	390,190
Spot foreign exchange payable	(1,794,217)	(390,610)
Currency swap receivable	3,128,326	1,119,072
Currency swap payable	(3,306,244)	(1,103,272)
Forward foreign exchange receivable	646,497	5,137,363
Forward foreign exchange payable	(645,822)	(4,942,022)
Foreign exchange transactions, net	(175,612)	210,721
Other futures contracts		
Listed futures contract receivable	1,113,731	-
Listed futures contract payable	(1,137,356)	-
Other futures contracts, net	(23,625)	-

The following table provides analysis of the outstanding memorandum items by geographical profile of counterparts:

	OECD area	Latvia	Other non-OECD countries	Total as at 31.12.2000.
Contingent liabilities				
Letters of credit	145,374	341,759	148,603	635,736
Outstanding guarantees	138,038	169,479	53,638	361,155
Total contingent liabilities	283,412	511,238	202,241	996,891
Financial commitments				
Loans granted	552,692	632,597	522,239	1,707,528
Undrawn credit lines	-	1,203,980	-	1,203,980
Total financial commitments	552,692	1,836,577	522,239	2,911,508
Total contingent liabilities and financial commitments	836,104	2,347,815	724,480	3,908,399

The following table provides analysis of the outstanding memorandum items by geographical profile of counterparts.

	OECD area	Latvia	Other non-OECD countries	Total as at 31.12.2000.
Foreign exchange transactions				
Spot foreign exchange receivable	214,583	555,190	1,026,075	1,795,848
Spot foreign exchange payable	(215,168)	(554,480)	(1,024,569)	(1,794,217)
Currency swap receivable	3,128,326	-	-	3,128,326
Currency swap payable	(3,306,244)	-	-	(3,306,244)
Forward foreign exchange receivable	645,332	-	1,165	646,497
Forward foreign exchange payable	(644,658)	-	(1,164)	(645,822)
Foreign exchange transactions, net	(177,829)	710	1,507	(175,612)

Counterparts of listed futures contracts are residents of OECD areas.

25. FUNDS UNDER TRUST MANAGEMENT (LVL)

The table below provides analysis of the funds managed on behalf of the Bank's customers by investment type:

	31.12.2000.	31.12.1999.
Ukrainian government bonds	139,559	209,841
Russian government bonds	-	19,703
Cash	234	389
Total funds under trust management	139,793	229,933

In 1999 the Bank of Latvia has taken the decision not to allow the Bank to enter into any new or extend existing agreements on managing the funds on behalf of customers (trust).

The major shareholders of the Bank, controlling more than 10% of the Bank's paid-in share capital, are:

	31.12.2000.		31.12.1999.	
	Paid-in share capital	% of total paid-in share capital	Paid-in share capital	% of total paid-in share capital
SIA "H.E.C. Konsultants"	524,500	10.49	524,500	10.49
Ernests Bernis	1,649,900	33.00	1,589,900	31.80
Oļegs Fiļs	999,700	19.99	699,300	13.99
Aleksandrs Bergmanis	566,600	11.33	565,500	11.31
Total	3,740,700	74.81	3,379,200	67.59

26. SHAREHOLDERS' EQUITY

As at 31 December 2000 the Bank's registered and paid-in share capital was LVL 5,000,000 (5,000,000). The Bank's share capital consists of ordinary shares only. All the shares have a par value of LVL 50 (50) each.

As at 31 December 2000, the Bank had 168 (175) shareholders, including 35 (36) legal entities and 133 (139) private individuals holding the total of 100,000 shares, including 60 shares assigned to the Board and 1,600 shares held by SIA "H.E.C.Konsultants" without voting rights. The Members of the Board directly hold 37.72% (57.1%), and the Members of the Council – 34.85% (5.64%) of the share capital.

27. CURRENCY ANALYSIS (LVL THOUSAND)

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

Assets	LVL	USD	EUR	RUB	Other	Total
Cash and deposits with the Bank of Latvia	3,989	1,092	133	-	33	5,247
Balances due from credit institutions	504	24,891	2,072	5,654	1,428	34,549
Loans	2,620	13,905	1,718	-	-	18,243
Treasury bills and other fixed income securities	2,160	18,688	1,741	-	-	22,589
Shares and other non-fixed income securities	8	-	12	-	-	20
Tangible fixed assets	2,695	2	-	-	-	2,697
Other assets	81	114	-	-	7	202
Prepayments and accrued income	216	446	48	-	7	717
Total assets	12,273	59,138	5,724	5,654	1,475	84,264
Liabilities						
Balances due to credit institutions	62	3,515	31	219	28	3,855
Deposits	2,171	57,197	3,435	5,719	899	69,421
Other liabilities	107	125	70	40	84	426
Deferred income and accrued expenses	239	236	21	1	6	503
Provisions for liabilities and charges	166	-	-	-	-	166
Total liabilities	2,745	61,073	3,557	5,979	1,017	74,371
Shareholders' equity	9,893	-	-	-	-	9,893
Total liabilities and shareholders' equity	12,638	61,073	3,557	5,979	1,017	84,264
Net long/(short) position on balance sheet	(365)	(1,935)	2,167	(325)	458	-
Outstanding foreign exchange						
receivable /(payable)	62	2,034	(2,169)	-	(102)	-
Net long/(short) open currency position	(303)	99	(2)	(325)	356	-
Percentage of shareholders' equity (%)	(3.06)	1.00	(0.02)	(3.29)	3.60	-

Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of equity.

28. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE (LVL THOUSAND)

The table below provides distribution of assets, liabilities and memorandum items by their maturity profiles:

Assets	Over- due	On demand	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Undated	Total
Cash and deposits with the Bank of Latvia	-	5,247	-	-	-	-	-	-	-	5,247
Balances due from credit institutions	-	23,314	9,877	162	551	-	-	-	645	34,549
Loans	30	421	384	1,679	1,484	3,727	8,804	1,714	-	18,243
Treasury bills and other fixed income securities	-	-	-	-	920	2,139	8,836	10,694	-	22,589
Shares and other non-fixed income securities	-	-	-	-	-	-	-	-	20	20
Tangible fixed assets	-	-	-	-	-	-	-	-	2,697	2,697
Prepayments and accrued income	5	234	206	114	129	29	-	-	-	717
Other assets	-	81	-	-	-	-	-	-	121	202
Total assets	35	29,297	10,467	1,955	3,084	5,895	17,640	12,408	3,483	84,264
Liabilities										
Balances due to credit institutions	-	1,272	1,840	123	-	620	-	-	-	3,855
Deposits	-	56,596	5,253	1,864	1,825	2,724	1,159	-	-	69,421
Money in transit	-	132	-	-	-	-	-	-	-	132
Other liabilities	-	294	-	-	-	-	-	-	-	294
Deferred income and accrued expenses	-	440	60	3	-	-	-	-	-	503
Provisions for liabilities and charges	-	-	-	-	-	-	-	-	166	166
Shareholders' equity	-	-	-	-	-	-	-	-	9,893	9,893
Total liabilities and shareholders' equity	-	58,734	7,153	1,990	1,825	3,344	1,159	-	10,059	84,264
Memorandum items										
Letters of credit	-	6	313	238	79	-	-	-	-	636
Outstanding guarantees	-	86	116	13	122	-	24	-	-	361
Loans granted	-	1,707	-	-	-	-	-	-	-	1,707
Undrawn credit lines	-	1,204	-	-	-	-	-	-	-	1,204
Total memorandum items	-	3,003	429	251	201	-	24	-	-	3,908

Assets, liabilities and memorandum items are allocated to maturity groups based on remaining period from the balance sheet date to:

- repayment or selling dates of assets;
- repayment dates of liabilities;
- contractual maturity dates of memorandum items.

The maturity structure of assets, liabilities and memorandum items of credit institution is assessed by calculating the net liquidity position as a difference between assets, liabilities and memorandum items in each maturity group and the total liquidity position as a difference between assets, liabilities and memorandum items in a progressive succession of maturity groups. The relationship between the maturity of assets and liabilities as well as memorandum items is indicative of liquidity risk and the extent to which it might be necessary to raise funds to meet outstanding obligations.

The balances of those assets for which provisions have been established are stated at their net book value.

According to the Bank of Latvia's regulations, highly liquid assets (cash, deposits with the Bank of Latvia, balances due from credit institutions and highly liquid securities) may not constitute less than 30% of the Bank's short-term liabilities. As at 31 December 2000 and 1999 the liquidity ratio of the Bank was 78% (77%) .

29. REPRICING MATURITY PROFILE

The majority of the Bank's interest bearing assets and liabilities has fixed interest rates which can be repriced at their maturity as presented in Note 28.

However, in order to reduce interest rate risk, during the year, the Bank introduced floating base rates for all new long-term loans (one year and more) which exceed equivalent of LVL 5 thousand, USD 30 thousand or EUR 10 thousand. The floating base rates are reviewed by the Bank on a semi-annual basis. As at 31 December 2000 the total amount of outstanding loans which are subject to floating base rate is LVL 7 596 thousand. At the end of reporting year, the Bank also held floating rate bonds of credit institutions and privately held companies with the total carrying value of LVL 5,504 thousand.

30. RELATED PARTIES (LVL THOUSAND)

Related parties are defined as shareholders who have significant influence over the Bank, members of the Council and Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as subsidiaries and associated entities.

Loans granted to related parties	31.12.2000.	31.12.1999.
Management of the Bank	251	5
Related legal entities	416	370
Other related private individuals	25	4
Total loans to related parties	692	379
Loans granted	36	-
Less provision for possible credit losses	314	-
Total loans and loans granted, net	414	379
Percentage of the Bank's equity (see Note 31), %	4.18	8.30

As at 31 December 2000 the Bank had established specific provisions in the amount of LVL 310 thousand for the loans issued to related legal entities and in the amount of LVL 4 thousand – for the loans issued to related private individuals.

The following table provides the analysis of the Bank's loans issued to related parties as at 31 December 2000:

Loans issued to related parties, net of provision	Amount	Terms
Management of the Bank	251	10,5%
Related legal entities	106	2% - 11%
Other related private individuals	21	10%
Loans granted	36	12%
Total loans and loans granted	414	

The Bank has also issued guarantees to related parties for American Express credit cards totalling LVL 12,260. The guarantees are secured by deposits.

All related party deposits bear standard interest rates offered by the Bank. As at 31 December 2000, total deposits held by related parties at the Bank amounted to LVL 72,286.

31. CAPITAL ADEQUACY (LVL THOUSAND)

The guidelines of the Bank of Latvia for calculations of capital adequacy differ slightly from the recommendations under the Basle Committee guidelines.

Description	Basle Committee guidelines	Bank of Latvia guidelines
Tier 1		
- paid in share capital	5,000	5,000
- share premium	255	255
- reserves	1,002	1,002
- profit for the year	5,331	5,331
- accumulated deficit for the prior year	(1,695)	(1,695)
Total Tier 1	9,893	9,893
Additional Tier 2		
- general provisions for possible credit losses (restricted to 1,25% of risk weighted assets)	329	-
Total shareholders' equity	10,222	9,893
Risk weighted assets and off balance sheet items	47,811	43,785
Capital requirements for credit risk	3,825	4,379
Capital requirements for foreign currency risk	58	53
Capital adequacy ratio (%)	21.06%	22.32%
Minimal capital adequacy ratio (%)	8%	10%

32. CASH AND CASH EQUIVALENTS (LVL)

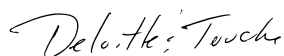
	31.12.2000.	31.12.1999.
Cash and deposits with the Bank of Latvia	5,246,593	5,914,723
Balances due from credit institutions	33,480,182	25,707,263
Balances due to credit institutions	(3,234,934)	(5,705,244)
Total cash and cash equivalents	35,491,841	25,916,742

INDEPENDENT AUDITORS' REPORT**Deloitte
& Touche****To the Shareholders of "Aizkraukles banka"**

We have audited the accompanying balance sheet of "Aizkraukles banka" (the "Bank") as of 31 December 2000 and the related statements of profit and loss, shareholders' equity and cash flows for the year ended 31 December 2000. 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 another auditor whose report dated 21 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 Bank as of 31 December 2000 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Deloitte & Touche

Riga, Latvia
9 February 2001

Aizkraukles banka

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