Aizkraukles Banka

Annual Report 2001

AB.LV

The Bank held LYL 107.5 million at the end of the year. This is LYL 34.2 million or 47% more than in 2000

Contents

Development of the Bank's Identity

Trust Me (TM)

Aizkraukles Banka has chosen the initials AB.LV as its new trademark (TM)

Our new trademark will make us more distinctive both nationally and internationally and will represent the values and qualities of Aizkraukles Banka's service.

We believe that the design of our logo is unusual, perhaps even unique. Our new trademark will be available in five separate bright colours that have been selected to respect the individuality of our clients. Each of us is special, and everyone needs a special approach. At Aizkraukles Banka we understand that people are individuals and need to be treated individually. We are ready to make it possible for our customers see us differently and in their own particular way.

The Core of our Relationship

Partnership is the key word in our relationship, and we believe that by understanding the customers' business and helping them succeed financially we achieve a win-win situation for the Bank and for the customer. The Bank needs customers who trust it, and our customers are looking for a bank they can trust. Clients put their faith in a bank that protects their financial resources and also respects a relationship based on mutual understanding and confidentiality. The message of mutual trust is the message that binds us together.

It is perfectly understandable that a bank cares the most for its present customers. Without them it could not look to the future. Still, its business would not increase sufficiently if a bank were not able to attract new clients. Aizkraukles Banka's philosophy is that by taking the best care of its present customers it will also attract new clients. That is why customer service is a priority for the Bank.

Working and Growing as One

At Aizkraukles Banka we understand the need to grow as one with our customers. Their growth becomes our development. A bank can become profitable only when it understands that it is directly involved in its clients' business. The Bank supports its customers in times of success, as well in the periods of downturns, because we are looking for lifetime customers. We know that our customers need a bank in which they can put their faith, one which they can trust with their finances and which maintains absolute confidentiality. Our aim is to provide the highest level of security and customer service.

Our customer base is expanding rapidly. The key to managing growth is to be able to adjust to the changing needs of customers and the market place. We must be aware of what kind of services our customers will demand tomorrow; we must be ready to supply these services at the right time with the highest level of customer service. Our philosophy is based on this simple set of concepts.

The Recent Past – A Story of Profit and Growth

The financial performance of the Bank during recent years is evidence of its growing strength. We have acquired skills of working profitably. Currently, we are the most profitable bank in Latvia. Our efficiency is based both on our in-depth knowledge of the domestic market, as well as on our extensive experience in international markets. Aizkraukles Banka has developed an attractive package of services for its international customers. This has resulted in a rapid expansion of operations in this area. The Bank is justly proud of its record of profitability and rapid growth.

The strength of Bank lies i
ndependence, understand
of the local market and ex
n international markets.

The Future – Our Foundation

The year 2001 was a time for Aizkraukles Banka to re-assess its values. We decided to spend time assessing the efficiency of our future plans.

At Aizkraukles Banka we have been prudent and we have always valued sound judgement and well planned activities, although we are not rigidly conservative. Our research has led us to conclude that the Bank's business should be built on two cornerstones. Globally, there is an increasing need for the use of advanced technology in providing outstanding service. On the domestic level, the Bank needs to meet the unique needs of each of its customers in providing service. Consequently, the Bank's key service priority is to combine technology with a recognition of the uniqueness of each customer.

The Realities

Aizkraukles Banka knows what it wants to achieve. At the same time, it understands that it is not possible to achieve everything in one day. The Bank is consistent and realistic in separating what is possible today from what is desirable tomorrow.

Business success derives from delivering what is achievable. The Bank has set itself a number of goals and is ready to work in a consistent and well-planned way in order to achieve them. We understand that developing the latest technology is not an aim in itself; what is important is merging the use of technology with the needs of our customers.

Individual Professionalism

As Aizkraukles Banka grows, so does its level of service. We value close contact with our customers as essential to our competitive advantage. One way that we strive to get closer to our customers is through the use of technology. Our new Internet home page and our new corporate identity are examples of this.

Our development has shown that the ability to work closely together with our clients has been the key to our business success. These close relationships have enabled us to maintain the loyalty of our customers. We understand that we must develop and strengthen this competitive advantage of Aizkraukles Banka because that is what our customers appreciate the most.

But it is important for us to make sure that technology will not affect personal contact. Instead it must enhance our ability to provide service. The staff at the Bank will always provide fast and efficient personal service.

A Final Note

What else can be said? AB.LV – Aizkraukles Banka Latvia. That is the core of our message, the basis for openness, dialogue and contact. We are easy to communicate with, easy to work with, and we always maintain our sense of duty and responsibility.

Financial Data

During the past year, Bank g
a profit of LVL 4.2 million,
which exceeds the projecte
profit of LVL 3.8 million.

Assets

Aizkraukles Banka is growing quickly. An example of this is the increase in the Bank's assets. They have doubled in value in 2001 compared to 1999. Judging by the amount of assets owned, Aizkraukles Banka rated as the sixth largest commercial bank in Latvia at the end of 2001. This increase is a tribute to the way in which the Bank has carried out its business plan, including aggressive activities in the domestic market and successful introduction of services in international markets.

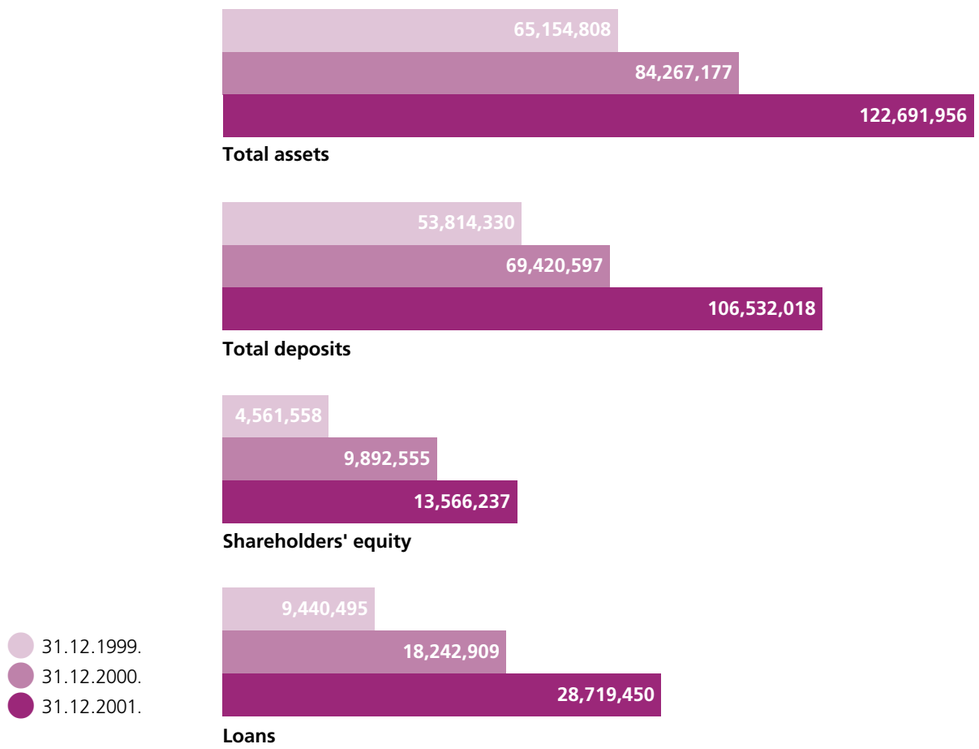
Shareholders' Equity

In order to ensure the security of deposits, match the growth of assets, and strengthen its financial stability, the Bank continued to increase its equity during the period under review. Last year, with the permission of the Finance and Equity Market Committee, the stockholders decided to include six months' profit in the Bank's equity. This was an important step towards strengthening the Bank's ability to attract deposits and increased its loan activities.

Deposits

The amount of deposits at the Bank has doubled since 1999 and was more than LVL 100 million at the end of 2001. The rise in the level of fund deposits points to a corresponding rise in the level of trust placed in the Bank by its customers. Also, the growth of disposable income within the country contributed to the increase in deposits. The audited figures for 2001 show that the Bank held LVL 107.5 million at the end of the year. This is LVL 34.2 million, or 47% more than in 2000.

Main Financial Data



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a profit of LVL 4.2 million,
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Loans

Within two years, the size of the loan portfolio issued by the Bank has tripled. Our client base has strengthened, and the Bank has grown along with its clients. The volume of loans issued by Aizkraukles Banka is proof of its rapid rate of growth.

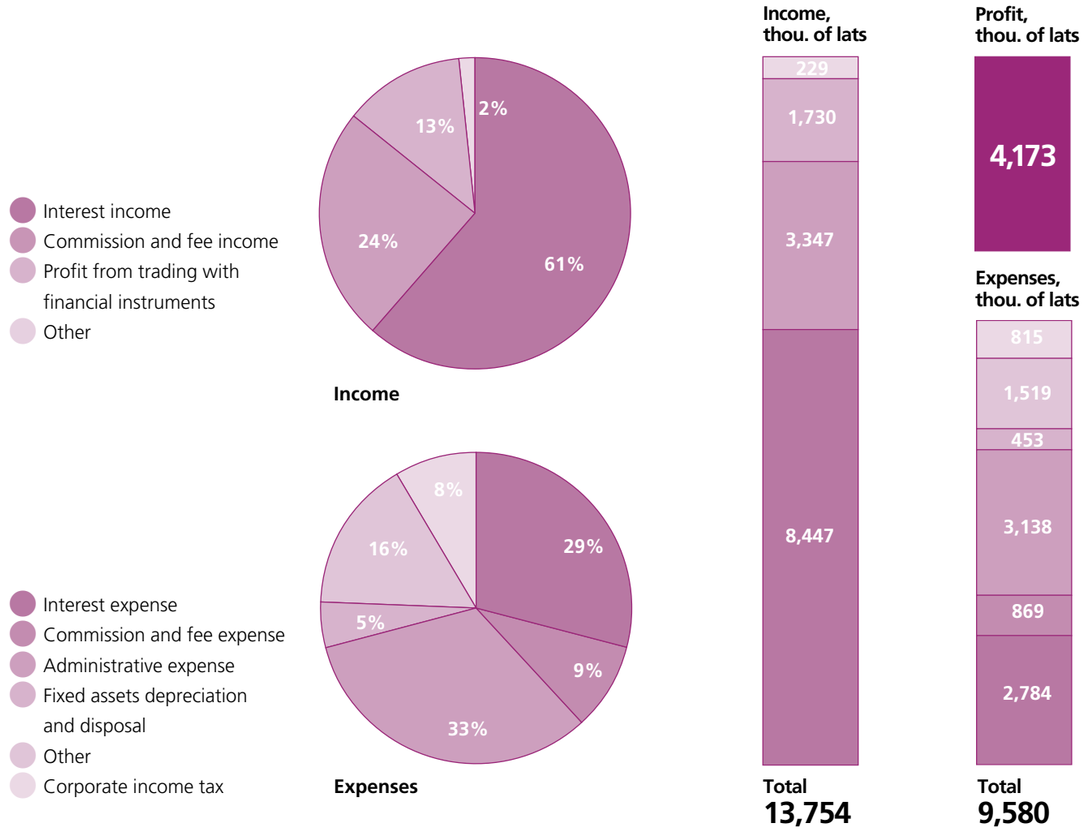
During recent years, an average of 90% of loans issued have been granted to customers in Latvia. In 2000 the increase in the loan portfolio of Aizraukles Banka was mostly attributed to the growth in lending to private individuals, while in 2001 Aizkraukles Banka's lending activities increased significantly in the corporate sector.

Profit

The level of profit enjoyed by the Bank in recent years has enabled the funding of its development policy. During the next two years, the Bank plans to further increase the level of customer service and to considerably expand its range of services.

The figures for return on assets (ROA) – 4.3%, the return on equity (ROE) – 35.4%, and the earnings per share (EPS) – LVL 41.74 provide further evidence of the outstanding performance of the Bank. When the Bank's income and spending structure is considered, it becomes evident that the major sources of income for the Bank have been loan interest and commissions for banking services. The largest area of expenditure was administrative costs. The Bank paid LVL 866,000 in corporate income tax this year.

Income, Expenses and Profit Comparison in 2001



Management Report

A New Basis for Development

In 2001, the joint stock company Aizkraukles Banka stabilised its growth. The groundwork has been laid for implementing an improved level of operations in the Bank's activities over the next few years.

Improvements in the Latvian Economy

The Baltic countries may be characterised as one of the fastest developing regions. Even if the global recession is more extensive than expected, its impact on Latvia will not be significant. According to the results of research carried out by the respected EIU (Economist Intelligence Unit), Latvia in comparison to 100 other developing countries takes the lead in minimising risks to the economy. The national currency exchange rate is stable. The national debt ratios are among the lowest among the developing countries. Economists attribute the stability in the Latvia's banking sector to the Bank of Latvia's reserves and the successful operations of commercial banks.

A Period of Growth

In evaluating the development of the national economy, last year Aizkraukles Banka strengthened its independence as a local capital bank with extensive experience in international markets by setting new targets for expansion in the Latvian market. All of the Bank's key performance indicators have exceeded projections; this is the most important achievement of the reporting year. Because performance has exceeded projections, the Bank can plan for a higher level of long-range development.

To achieve its strategic goal of increasing its market share, the Bank developed a new trademark which will sharpen its image and increase recognition. The implementation of the new concept of operations began at the end of 2001 and will be fully completed during 2002. During the reporting year, a new corporate image of Aizkraukles Banka was created, the ideological core of which is embodied by the trademark AB.LV. The trademark characterises the operational philosophy of the Bank – dynamic growth, an individual approach and the implementation of state-of-the-art technology.

Aizkraukles Banka may already call itself a modern bank; its service is characterised by three key principles – speed, comfort and mobility. The quality of any of its services is first evaluated in the light of these three criteria. Clients of Aizkraukles Banka have all the conveniences of modern banking – they may access their accounts not only by traditional means but also by the modern communications means. The use of the most up-to-date technology will play an ever-increasing role in banking. The Bank's operational organisation is tailored to provide an individual approach to every client.

All of the Bank's key performance indicators have exceeded the projections, this is the most impressive achievement of the reporting

Aizkraukles Banka keeps up with the most recent innovations in modern banking technology and implements them in its operations. In 2002, the Bank will complete more than 60 projects related to new information technologies, new services and security systems which were begun at the end of 2001.

To improve customer service, the Bank has begun the reconstruction and expansion of the central office premises on Elizabetes Street in Riga – a decision resulting from an increase in operations and number of employees. The investments made in the development of the Bank's technology products resulted in a much vaster technology optimisation programme than was projected earlier.

In our efforts to have the Internet banking and Internet home page functions meet the needs of the modern customers, we aimed to achieve internationally recognised quality. Any addition to our range of our products and services is first evaluated from a security perspective to guarantee protection for the Bank and for our clients.

The Focus on Risk Management

The transition to the new structure of the Bank that was begun in 2000 was completed in 2001. In the new structure a special division dedicated to risk management was established. The main task of the Risk Management Division is to identify the financial and operational risks, as well as to develop and implement risk hedging and management methods so that the impact of risks on the operations of the Bank is minimised. The qualifications of the employees of the Risk Management Division are continuously upgraded by means of dedicated training programmes and study courses.

The intent of the Bank's management to pay increased attention to risk management was evidenced by the establishment in 2001 of the Assets Evaluation Committee. In order to monitor risk management, the Board of the Bank regularly evaluates the analysis of the Bank's operations prepared by the Risk Management Division.

The Strategy for Growth

The new customer service centre opened at Rātslaukums in Old Riga in 2001 represents the Bank's attempt to conquer the nation's financial centre. In 2002, the Bank is planning to rapidly develop a customer service network throughout Riga and the Riga district.

By carefully designing the service assortment and successfully offering it in the international market, as well as by implementing targeted co-operation within the financial sector of Latvia, Aizkraukles Banka has come to be characterised by the most dynamic growth in the banking sector. According to the profitability ratios, the Bank was among top three most efficient Latvian banks in 2001.

During the past year, Aizkraukles Banka generated a profit of LVL 4.2 million, which exceeds the projected profit of LVL 3.8 million. The Bank's liquidity has reached 81% (78%), while return on average assets was 4.3%. Meanwhile, the return on average equity amounted to 35.4%. Earnings per share were LVL 41.74.

During the reporting year, the assets of Aizkraukles Banka have grown by 46%, amounting to LVL 122.7 million. As at the year end, total funds attracted by the Bank amounted to LVL 107.5 million, which is LVL 34.2 million, or 47%, more than in 2000.

All of the Bank's key performance indicators have exceeded the projections, this is the most impressive achievement of the reporting

Compared with 2000, the Bank's gross loan portfolio has grown by LVL 11 million, or by 58%. Ninety percent of the portfolio consists of loans issued to residents of Latvia. Private lending constitutes 42%, and corporate lending 58% of the portfolio. Compared with the previous year, the volume of loans disbursed to private entities has increased by LVL 4.8 million, reaching LVL 12.6 million. Meanwhile, the volume of loans to legal entities has amounted to LVL 17.4 million, demonstrating a growth of LVL 6.2 million compared with 2000.

As at the end of 2001, the Bank employed a total of 252 persons. During the reporting year, the Bank's staff increased by 64 persons, or by 34%.

An Identity for Growth

The year 2002 will be marked by a higher level of quality in the development of Aizkraukles Banka. The new image of the Bank records the present achievements and symbolises both the local and international ambitions of Aizkraukles Banka.

The Bank will continue its course along the road of openness and transparency, since we want to be known and recognised. The stability of the Bank is guaranteed by enduring values, as the management of Aizkraukles Banka is composed of key shareholders of the Bank. Our long-term strategy does not include changing shareholders. The strength of Aizkraukles Banka lies in its independence, understanding of the local market and experience in international markets.

Future Competitiveness

The Bank has reorganised and improved its customer service in international markets, and this has enabled it to further increase the quality of customer service provided to its clients. This has resulted in a 51% increase in the deposits and investments by foreign customers.

The growth of the Bank's competitiveness on an international scale is the key task for the year 2002. We will continue our growth in this direction along with our clients and our country. With strong confidence Aizkraukles Banka faces the future and its extensive opportunities for the development of Latvia.

The management of the Bank is grateful to its clients and intends to continue promoting development in line with the Bank's strategy and its long-term goal of serving its clients.

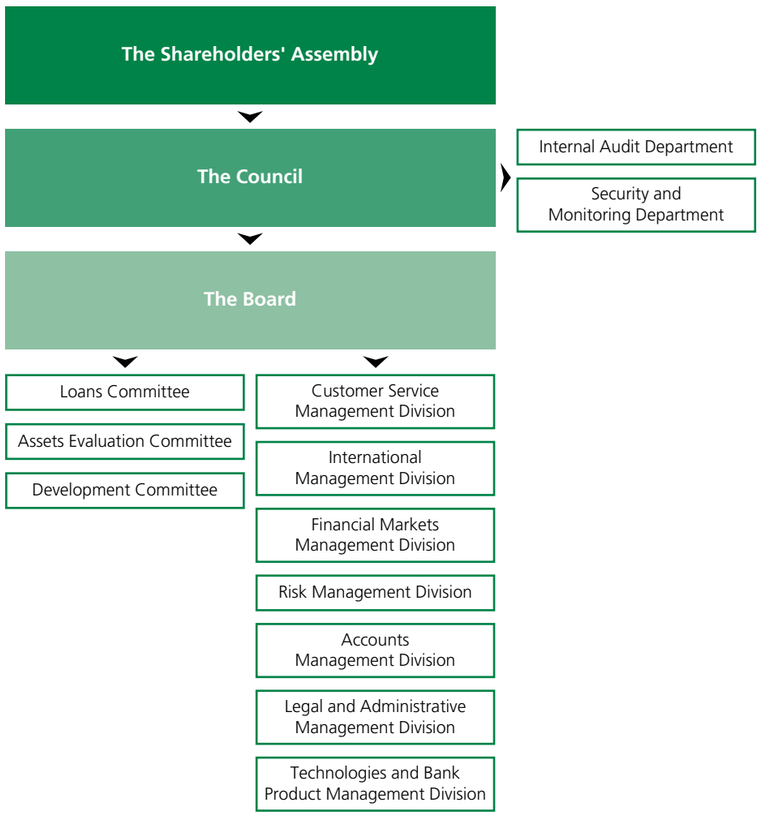
Ernests Bernis,
Chairman of the Council

Aleksandrs Bergmanis,
Chairman of the Board

Riga, 5 March 2002

Management of the Bank

Organisational Structure



The Council of the Bank consists of three members:

Ernests Bernis, Chairman of the Council, Head of the International Division
Jānis Krīgers, Deputy Chairman of the Council
Vladimirs Kutovojs, Member of the Council

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

Aleksandrs Bergmanis, Chairman of the Board
Oļegs Fiļs, Deputy Chairman of the Board, Head of the Financial Markets Division

Members of the Board:
Zane Kurzemniece, Head of the Accounting Division, Chief Accountant
Aleksandrs Pāže, Head of the Administrative and Legal Division
Pāvels Šnejersons, Head of the Customer Service Division
Aivars Rauska, Deputy Head of the Customer Service Division
Māris Kannenieks, Board member candidate, Deputy Head of the Financial Markets Division, Head of the Dealing Department

Ernests Bernis,
Chairman of the Council

Aleksandrs Bergmanis,
Chairman of the Board

Riga, 5 March 2002

Financial Statements

Statement on the Responsibility of the Management

The management of the Bank is responsible for preparing the financial statements of the Bank. They are prepared in compliance with the requirements of the Republic of Latvia's Law On Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

The financial statements, set forth on pages 20 to 51, are prepared in accordance with the supporting documentation and present fairly the financial position of the Bank as at 31 December 2001 and 2000, and the results of the Bank's operations, changes in the shareholders' equity and cash flows for the years then ending.

The aforementioned financial statements are prepared by consistently applying accounting policies in conformity with International Financial Reporting Standards and on a going concern basis. Prudent and reasonable judgements and estimates have been made by the management in preparing these financial statements.

The management of the Bank is responsible for keeping proper accounting records, safeguarding the Bank's assets and preventing and detecting fraud and other irregularities in the Bank. The management of the Bank is also responsible for operating the Bank in compliance with the Law On Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

Ernests Bernis,
Chairman of the Council

Aleksandrs Bergmanis,
Chairman of the Board

Riga, 5 March 2002

Statements of Income for the Years Ended 31 December 2001 and 2000

	Notes	2001	2000
Interest income	4	8,447,690	5,904,592
Interest expense	4	(2,784,113)	(2,153,953)
Net interest income		**5,663,577**	**3,750,639**
Dividends received		**1,215**	**7,589**
Commission and fee income	5	3,347,058	2,643,927
Commission and fee expense	5	(869,699)	(801,927)
Net commission and fee income		**2,477,359**	**1,842,000**
Profit from trading with financial instruments	6	1,730,253	1,507,519
Other operating income	7	44,411	716,267
Operating income		**9,916,815**	**7,824,014**
Administrative expense	8	(3,138,542)	(1,841,908)
Depreciation and write-off of fixed assets	18	(453,247)	(381,432)
Other operating expense		(4,524)	(4,500)
Provision expense for possible credit losses	9	(1,173,850)	(1,193,796)
Release of previously established provision	9	183,852	1,078,972
Value adjustments of long-term financial investments	9	(341,198)	-
Profit before corporate income tax		**4,989,306**	**5,481,350**
Corporate income tax	10	(815,624)	(150,353)
NET PROFIT FOR THE YEAR		**4,173,682**	**5,330,997**

Ernests Bernis,
Chairman of the Council

Aleksandrs Bergmanis,
Chairman of the Board

Riga, 5 March 2002

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

Balance Sheets and Memorandum Items as at 31 December 2001 and 2000

	Notes	31.12.2001.	31.12.2000.
Assets			
Cash and demand deposits with central banks	11	4,949,371	5,246,593
Balances due from credit institutions	12	49,606,989	34,548,541
Demand deposits		23,197,990	23,317,655
Other balances due from credit institutions		26,408,999	11,230,886
Loans and advances to non-banking customers	13	28,719,450	18,242,909
Bonds and other fixed income securities	14	34,890,861	22,589,003
Government bonds		19,543,271	12,648,497
Other bonds and fixed income securities		15,347,590	9,940,506
Shares and other non-fixed income securities	15	16,251	20,267
Derivatives	16	57,420	675
Investments in associated entities	17	12,000	-
Fixed assets	18	3,350,983	2,697,170
Prepayments and accrued income	19	935,356	717,356
Other assets	20	153,275	204,663
Total assets		**122,691,956**	**84,267,177**
Liabilities and shareholders' equity			
Balances due to credit institutions and central banks	21	923,190	3,855,289
Demand deposits		261,706	1,273,333
Term deposits		661,484	2,581,956
Deposits from the public	22	106,532,018	69,420,597
Demand deposits		88,074,666	56,595,991
Term deposits		18,457,352	12,824,606
Derivatives	16	1,316	205,715
Deferred income and accrued expense	23	417,454	299,855
Provision for liabilities and charges	24	132,649	166,488
Other liabilities	25	1,119,092	426,678
Shareholders' equity		13,566,237	9,892,555
Paid-in share capital	27	5,000,000	5,000,000
Share premium		254,676	254,676
Legal and other reserves		1,250,000	1,001,790
Retained earnings/(accumulated deficit)		2,887,879	(1,694,908)
Current year unappropriated profit		4,173,682	5,330,997
Total liabilities and shareholders' equity		**122,691,956**	**84,267,177**
Memorandum items			
Funds under trust management		136,535	139,793
Contingent liabilities	26	927,824	996,891
Financial commitments	26	5,364,928	2,911,508

Ernests Bernis,
Chairman of the Council

Aleksandrs Bergmanis,
Chairman of the Board

Riga, 5 March 2002

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

Statements of Changes in Shareholders' Equity for the Years Ended 31 December 2001 and 2000

	Paid-in share capital	Share premium	Legal and other reserves	Retained earnings/ (accumulated deficit)	Total share-holders' equity
Balance as at 1 January 2000	**5,000,000**	**254,676**	**1,001,790**	**(1,694,908)**	**4,561,558**
Net profit for 2000	-	-	-	5,330,997	5,330,997
Balance as at 31 December 2000	**5,000,000**	**254,676**	**1,001,790**	**3,636,089**	**9,892,555**
Dividends paid	-	-	-	(500,000)	(500,000)
Transferred to legal reserves	-	-	248,210	(248,210)	-
Net profit for 2001	-	-	-	4,173,682	4,173,682
Balance as at 31 December 2001	**5,000,000**	**254,676**	**1,250,000**	**7,061,561**	**13,566,237**

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

Statements of Cash Flows for the Years Ended 31 December 2001 and 2000

	2001	2000
Cash inflow/(outflow) from operating activities		
Profit before taxation	4,989,306	5,481,350
Depreciation and write-off of fixed assets	453,247	381,432
Increase/(decrease) in provisions for possible credit losses	1,339,110	(2,689,232)
Loss from revaluation of foreign currency positions	86,477	123,320
(Increase)/decrease in other assets	(24,130)	24,681
(Increase)/decrease in prepayments and accrued income	(294,101)	654,365
(Decrease)/increase in other liabilities	(59,443)	116,113
(Decrease)/increase in deferred income and accrued expense	(66,351)	245,381
Increase in provisions for liabilities and charges	37,111	14,735
Increase in cash and cash equivalents before changes in assets and liabilities as a result of operating activities	**6,461,226**	**4,352,145**
(Increase)/decrease in short-term investments	(11,347,496)	1,156,937
Decrease/(increase) in balances due from credit institutions	398,865	(275,116)
(Increase) in loans and advances to non-banking customers	(11,460,402)	(8,924,641)
(Decrease)/increase in balances due to credit institutions and central banks	(614,294)	116,527
Increase in deposits from the public	37,111,421	15,606,267
Increase in cash and cash equivalents from operating activities	**20,549,320**	**12,032,119**
(Taxation)	**(153,910)**	**–**
Cash flow from investing activities		
(Purchase) of fixed assets, net	(1,110,683)	(446,578)
(Purchase) of equity investments and other long-term investments	(1,306,783)	(1,889,011)
Sale of fixed assets	3,623	2,099
Decrease in cash and cash equivalents from investment activities	**(2,413,843)**	**(2,333,490)**
Cash flow from financing activities		
Dividends paid	(498,950)	(210)
Decrease in cash and cash equivalents from financing activities	**(498,950)**	**(210)**
Increase in cash and cash equivalents, net	**17,482,617**	**9,698,419**
Cash and cash equivalents at the beginning of the year	**35,491,841**	**25,916,742**
(Loss) from revaluation of foreign currency positions	**(86,477)**	**(123,320)**
Cash and cash equivalents at the end of the year	**52,887,981**	**35,491,841**

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

1. General Information

(Figures in parenthesis in text represent figures as at 31 December 2000 or for the year ended 31 December 2000, unless otherwise stated.)
Aizkraukles Banka was registered in Aizkraukle, the Republic of Latvia, on 17 September 1993, as a joint stock company. In 2000, the legal address of the Bank was changed from 8 Skolas Street, Aizkraukle, to 23 Elizabetes Street, Riga.
The Bank operates branches in Riga, Aizkraukle and Jēkabpils, and four sub-branches in Riga. Its main areas of activity are lending, fund transfers, foreign currency exchange and financial funds management. The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia that allows all the banking operations specified under the Law On Credit Institutions, except that the Bank may not accept new funds under trust management nor prolong the existing agreements on funds under trust management accepted from clients.

2. Information on Principal Accounting Policies

A summary of the principal accounting policies which have been applied consistently (unless otherwise stated) throughout the years ended 31 December 2001 and 2000 is set forth below:

a) Reporting Currency
The financial statements are reported in lats (LVL) unless otherwise stated.

b) Basis of Accounting
These financial statements are based on the statutory records prepared in accordance with legislative requirements. These records 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 Financial Reporting Standards (IFRS) and the stipulations of the Financial and Capital Market Commission.

c) Basis of Presentation
The financial statements are presented in accordance with IFRS and the regulations on the Presentation of Annual Reports of Banks passed by the Financial and Capital Market Commission. For purposes of comparison, the items in the balance sheet as at 31 December 2000 and the statements of income and cash flow for the year ended 31 December 2000 have been reclassified.

d) Income and Expense Recognition
Interest income and expense items are recognised on an accrual basis. No interest income is recognised on non-performing loans and advances (see Note 2 j). Recognition of interest income is suspended at the time when there appears uncertainty as to the recoverability of principle or interest of a particular loan. The accrued interest receivable is provided at the moment when the interest recognition is suspended.
Commission and fee income and expense are included in the statement of income as they are earned.

e) Provision for Employee Holiday Pay
The provision for employee holiday pay is estimated for the Bank's personnel on the basis of 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 adding the related social insurance contributions payable by the employer.

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 the 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 subsequent to the date of the transaction 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 one foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows.

	USD	EUR	RUB
31 December 2001	0.638	0.560856	0.0211
31 December 2000	0.613	0.570042	0.0216

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 by 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 on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal timing differences arise from differing rates and methods of accounting and tax depreciation on fixed assets, general provisions for possible credit losses and provision for employee holiday pay.

h) Loans and Advances to Non-banking Customers
Loans and advances to non-banking customers represent the outstanding principal balance less provisions for losses as presented in Note 9.
For the purposes of these financial statements, financial lease receivables are classified as loans and advances to non-banking customers.

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 with respect to 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 and advances to customers, including banking institutions, are defined as loans and other credit balances for which contractually due principal is 30 or more days overdue, contractually due interest is 90 or more days overdue, or the management has reason to believe 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 credit losses. Provisions for possible credit losses represent the estimated amounts of probable losses that have been incurred by the balance sheet date. The specific provision is determined after individually reviewing all credits for potentially uncollectable amounts and is based on customer's financial position, value of collateral, fulfilment of loan agreement and compliance with the credit exposure limits determined by the Finance and Capital Market Commission. The general element of the provision relates to the potential losses which experience indicates are present in the Bank's portfolio of loans and advances to customers.

When a loan or advance has been classified as non-performing or of high risk, a provision for possible credit 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 and advances is based on the estimated realisable value of the asset and is taken into account when estimating the required provision.

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

- specific provision for credits identified as potentially doubtful and high risk
- general provision for the Bank's total exposure to:
  - credit concentration risk
  - collateral values
  - measures implemented to improve impaired customers' financial position
  - general market or operating events which have occurred or have yet to occur before or after the balance sheet date and for which a specific credit risk provision is not yet quantifiable.

The level of the provisions is based on estimates considering relevant factors including, but not limited to, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions, as well as other relevant factors affecting loan and advance collectability and collateral values. Ultimate losses may vary from the current estimates.
The above estimates are reviewed periodically, and as adjustments become necessary, they are reported in the statement of income in the reporting period in which they become known. The management of the Bank has made its best estimates of losses and believes that the estimates presented in the financial statements are reasonable in light of the available information.
When loans and advances cannot 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 total amount of the loss is determined.

k) Bonds and Other Fixed Income Securities

On 1 January 2001, the Bank adopted accounting principles compliant with International Accounting Standard (IAS) No. 39, whereby the Bank divides its financial assets into four categories:

- balances due from credit institutions and loans and advances to non-banking customers (see Note 2 h) for explanation);
- assets and liabilities held for trading purposes or the trading portfolio;
- assets to be held to maturity, or the investment portfolio;
- assets available for sale.

Trading Portfolio

The trading portfolio comprises all financial assets and financial liabilities acquired or incurred for the purpose generating a profit from short-term fluctuations in price or interest rate. The financial assets and liabilities to be included in the trading portfolio are defined by the Bank's trading portfolio policy.
Assets and liabilities held for trading purposes are marked-to-market. Any gain or loss resulting from marking-to-market the trading portfolio, as well as any gain or loss resulting from sale of assets or redemption of liabilities held within the trading portfolio is included in the statement of income under "Profit from trading with financial instruments".

Investment Portfolio

The investment portfolio comprises bonds and other debt securities with fixed income intended to be held to maturity.
The securities included in the investment portfolio are stated at cost and adjusted for amortised discount/premium, less provisions for possible credit losses. The discount received/premium paid at the moment of purchase is amortised in the statement of income on a straight-line basis over the period from purchase to maturity. Restructured debt securities are stated at cost.

Provisions for fixed income securities are established where, in the opinion of the Bank's management, the carrying amount of an investment exceeds the present value of the recoverable amount of the investment. The provisions are established for the amount to state carrying amount of investment at the present value of the recoverable amount. The present value of the recoverable amount of the investment is determined as the discounted value of the amounts to be recovered in the future by applying a discount rate which equals the original effective interest rate.

Assets Available for Sale

A financial asset is classified as available for sale if it does not belong in one of the three other categories described above. During the reporting year, the Bank did not hold any financial assets that can be classified as available for sale.

l) Shares and Other Non-Fixed Income Securities

Since 1 January 2001, in accordance with the previously laid out financial assets classification principles, investments in shares and other non-fixed income securities are classified as securities held for trading purposes or as assets available for sale, and accordingly both are marked-to-market. If the market price of investment cannot be determined, the security is stated at cost, less provisions based on the recoverability of the investment.
In the financial statements for the year ended 31 December 2000, the investments in shares and other non-fixed income securities were classified into securities held either for trading or investment purposes, and accordingly stated at either mark-to-market or cost, less specific provisions determined on an individual basis according to the present value of the recoverable amount.

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 17.
Investments in associated companies in which the Bank directly or indirectly holds more than 20% but less than 50% of the shares and voting rights are valued using the equity method.

n) Fixed Assets

Fixed assets are recorded at historical cost less accumulated depreciation. If the fair value of a fixed asset is lower than its carrying amount, the fixed asset is written down to its fair value.
Depreciation is provided by using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements, in the course of construction and preparation are not depreciated.

The following depreciation rates have been applied.

	2001	2000
Buildings and property improvements	5%	5%
Transport vehicles	20%	20%
EDP equipment and software	25%	25%
Office equipment	10 – 33%	10 – 33%

Costs of maintenance and repair not resulting in increased capacity or prolongation of useful life are charged to the statement of income as incurred.
Leasehold improvements are capitalised and amortised over the remaining period of lease contract on a straight-line basis.

o) Financial Instruments

Derivative Financial Instruments

In the ordinary course of business, the Bank is a party to currency swaps, futures and forward foreign exchange rate contracts. Derivative financial instruments are carried at their mark-to-market value and presented in a separate balance sheet caption "Derivatives" under assets and liabilities, respectively. Any gain or loss resulting from revaluation of derivatives is recognised in the statement of income as "Profit from trading with financial instruments".

Other Off-Balance Sheet Instruments

In the ordinary course of business, the Bank has been involved in off-balance sheet financial instruments comprising loan commitments, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements upon the conclusion of the respective agreements. The method for provisioning against off-balance sheet instruments is consistent with that adopted for loans and advances to non-banking customers as described in Note 2 j) above.

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.

r) 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. In cases 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.

s) Cash and Cash Equivalents

Cash and cash equivalents refer to cash and balances due from the Bank of Latvia and other credit institutions with an original maturity of three months or less, short-term government bonds with an original maturity of three months or less, less balances due to credit institutions with the original maturity of three months or less, see Note 30.

3. Risk Management

During its course of operations, the Bank is exposed to various financial risks, the most significant of which are credit risk, liquidity risk and market risks arising from changes in interest and foreign exchange rates and other factors. The Bank's risk management policies are approved by the Board of the Bank and are carried out by the Bank's structural units operating in the respective areas. The implementation of the Bank's risk management policies is monitored by the Bank's Risk Management Division.

The risk management systems undergo a constant improvement process to keep up with the development of the Bank's operational and financial markets, and the improvement process is controlled by the Bank's Internal Audit Department on a regular basis.

a) Credit Risk

Credit risk is exposure to potential losses in case the Bank's counterparty or debtor is unable to pay the contractual obligations to the Bank. The Bank manages its credit risk by placing limits on the amount of risk accepted in relation to a borrower and geographical or industry segments. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The Bank's Council has approved the Trading Portfolio Policy defining the structure of the Bank's trading portfolio, the maximum exposure to one issuer, limits per economic sector and currency, portfolio liquidity and the procedure for performance evaluation. The trading portfolio policy is implemented by the Financial Markets Division and monitored on a regular basis by the Internal Audit Department.

The Board of the Bank approves the methods for evaluating corporate borrowers' financial position, maximum exposures per industry in which the borrowers operate, types of loans and other criteria; the Board also defines the maximum amount of the loan portfolio and the maximum exposure to any single customer of a group of customers.

For purposes of lending to private individuals, the Bank has developed an internal rating system that is applied in taking a decision on granting a loan, as well as in loan portfolio management and estimation of general provisions.

For effective credit risk management, the Bank's Assets Evaluation Committee regularly performs an analysis of assets and off-balance sheet liabilities, i.e., their recoverability. Depending on the results of such an analysis, the number of general and specific provisions is determined.

The Bank believes that its exposure to credit risk is mainly concentrated in loans and advances to non-banking customers, investments in fixed income securities and balances due from credit institutions.

The following table provides an analysis of geographical concentrations of the Bank's assets and off-balance sheet items.

(thou. of lats)	Latvia	USA	European Union member states	Other countries in OECD area	Other countries	Total
Assets						
Cash and demand deposits with central banks	3,600	613	702	34	-	4,949
Balances due from credit institutions	338	16,876	29,008	297	3,088	49,607
Loans and advances to non-banking customers	25,984	973	47	10	1,706	28,720
Bonds and other fixed income securities	7,536	-	10,409	4,970	11,976	34,891
Other assets	3,855	8	218	156	288	4,525
Total assets	**41,313**	**18,470**	**40,384**	**5,467**	**17,058**	**122,692**
Off-balance sheet liabilities	4,669	457	186	45	936	6,293
Total geographical concentrations of assets and off-balance sheet liabilities	**45,982**	**18,927**	**40,570**	**5,512**	**17,994**	**128,985**

The issuers incorporated in a country only for the purpose of attracting funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

b) Liquidity Risk

Liquidity is the Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Bank's ability to turn its assets into cash with minimal loss or to ensure reasonably priced credit facilities. Based on the Bank's liability structure, the Council has approved a liquidity management policy incorporating a requirement on maintaining a high level of liquidity.

As at 2002, the Board of the Bank has placed limits on net positions per each maturity interval, on the total position per each maturity interval, as well as on the maximum amount of deposit to be accepted from one customer (or a group of related customers).

The Financial Market's Division ensures the liquidity of the Bank, while the Risk Management Division organises and monitors compliance with the liquidity risk management requirements.

The table below analyses assets, liabilities and memorandum items of the Bank into relevant maturity intervals based on the period remaining, as at balance sheet date, until the contractual maturity date.

(thou. of lats)	Overdue	On demand	Up to 1 month	1 – 6 months	6 – 12 months	1 – 5 years	More than 5 years	No maturity defined	Total
Assets									
Cash and demand deposits with central banks	-	4,949	-	-	-	-	-	-	4,949
Balances due from credit institutions	-	29,576	19,233	766	-	32	-	-	49,607
Loans and advances to non-banking customers	34	1,790	1,506	5,292	5,402	12,305	2,391	-	28,720
Bonds and other fixed income securities	-	25,660	635	224	224	3,354	4,794	-	34,891
Shares and other non-fixed income securities	-	-	-	-	-	-	-	16	16
Derivatives	-	58	-	-	-	-	-	-	58
Investments in associated entities	-	-	-	-	-	-	-	12	12
Fixed assets	-	-	-	-	-	-	-	3,351	3,351
Prepayments and accrued income	17	131	327	434	23	3	-	-	935
Other assets	-	73	-	-	-	-	-	80	153
Total assets	**51**	**62,237**	**21,701**	**6,716**	**5,649**	**15,694**	**7,185**	**3,459**	**122,692**
Liabilities									
Balances due to credit institutions and central banks	-	262	655	-	2	4	-	-	923
Deposits from the public	-	88,071	5,765	5,986	3,521	3,189	-	-	106,532
Derivatives	-	1	-	-	-	-	-	-	1
Deferred income and accrued expense	-	341	63	6	-	8	-	-	418
Provision for liabilities and charges	-	-	-	-	-	-	-	133	133
Other liabilities	-	1,119	-	-	-	-	-	-	1,119
Shareholders' equity	-	-	-	-	-	-	-	13,566	13,566
Total liabilities and shareholders' equity	**-**	**89,794**	**6,483**	**5,992**	**3,523**	**3,201**	**-**	**13,699**	**122,692**
Memorandum items									
Letters of credit	-	5	447	119	46	-	-	-	617
Issued guarantees	-	7	26	239	8	31	-	-	311
Unutilised credit lines	-	2,750	-	-	-	-	-	-	2,750
Undrawn credit facilities on settlement cards	-	1,794	-	-	-	-	-	-	1,794
Loan commitments	-	821	-	-	-	-	-	-	821
Total memorandum items	**-**	**5,377**	**473**	**358**	**54**	**31**	**-**	**-**	**6,293**
Net liquidity position		**(32,934)**	**14,745**	**366**	**2,072**	**12,462**	**7,185**	**(10,240)**	**-**
Total liquidity position		**(32,934)**	**(18,189)**	**(17,823)**	**(15,751)**	**(3,289)**	**3,896**	**(6,344)**	**-**

The maturity profile of assets, liabilities and memorandum items is determined on the basis of the following criteria:

- assets are stated at their period remaining until repayment or potential disposal;
- assets overdue for more than 14 days are stated as overdue;
- assets, as well as all debit balances on payment cards and current account overdrafts overdue less than 14 days, are presented under caption "On demand";
- securities within the Bank's trading portfolio are highly liquid, and, if necessary, can be sold at minimum loss; therefore, in the maturity profile they are also presented under caption "On demand";
- liabilities and memorandum items are stated at the period remaining until their settlement.

The assets which have been specifically provided for are stated at their net value.
The Financial and Capital Market Commission stipulates that the Bank should maintain sufficient liquid assets to meet its contractual liabilities, but not less than 30% of the Bank's total current liabilities. As at 31 December 2001, the Bank's liquidity ratio, calculated in accordance with the Financial and Capital Market Commission's requirements, was 81% (78%).

c) Currency Risk

Bank's financial position and cash flows are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives.
The Bank's currency risk management policy is to match the cash flows in each currency arising from the assets and liabilities denominated in the currency and to hedge the exposure to mismatched assets and liabilities by means of forward currency exchange contracts. The Bank's currency risk management policy defines limits on the levels of currency risk and acceptable currency exposures.

The Bank's currency profile of assets, liabilities, shareholders' equity, as well as cash flows arising from derivatives as at 31 December 2001.

(thou. of lats)	LVL	USD	EUR	RUB	Other currencies	Total
Assets						
Cash and demand deposits with central banks	3,600	613	702	-	34	4,949
Balances due from credit institutions	4	44,267	740	1,900	2,696	49,607
Loans and advances to non-banking customers	6,146	19,925	2,649	-	-	28,720
Bonds and other fixed income securities	7,337	24,321	3,233	-	-	34,891
Shares and other non-fixed income securities	5	-	11	-	-	16
Derivatives	43	2	13	-	-	58
Investments in associated entities	12	-	-	-	-	12
Fixed assets	3,351	-	-	-	-	3,351
Prepayments and accrued income	295	511	127	-	2	935
Other assets	56	96	1	-	-	153
Total assets	**20,849**	**89,735**	**7,476**	**1,900**	**2,732**	**122,692**
Liabilities						
Balances due to credit institutions and central banks	657	37	229	-	-	923
Deposits from the public	5,437	90,904	6,935	1,569	1,687	106,532
Derivatives	-	1	-	-	-	1
Deferred income and accrued expense	76	319	23	-	-	418
Provision for liabilities and charges	133	-	-	-	-	133
Other liabilities	910	138	35	27	9	1,119
Total liabilities	**7,213**	**91,399**	**7,222**	**1,596**	**1,696**	**109,126**
Shareholders' equity	13,566	-	-	-	-	13,566
Total liabilities and shareholders' equity	**20,779**	**91,399**	**7,222**	**1,596**	**1,696**	**122,692**
Net long/(short) position on balance sheet	70	(1,664)	254	304	1,036	-
Off-balance sheet foreign exchange contracts, assets/(liabilities)	347	809	(393)	-	(745)	-
Net open long/(short) currency position	**417**	**(855)**	**(139)**	**304**	**291**	**-**
Percentage of shareholders' equity (%)	3.07	(6.30)	(1.02)	2.24	2.15	-

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 the equity.
As at 31 December 2001, the Bank was in compliance with the above requirement of the Law On Credit Institutions.

d) Interest Rate Risk

Interest rate risk represents the effect of the market interest rate fluctuations on the Bank's financial position. In its course of operations, the Bank encounters interest rate risk as a result of differences between maturities or interest refixing dates of respective interest-sensitive assets and liabilities.
The Bank issues loans both with fixed and floating interest rates. To mitigate the effect of changes in interest rates on the Bank's financial position, the Bank's risk management policies provide for the possibility to enter into interest rate swap contracts.
To hedge the interest rate risk on the Bank's investments in fixed income securities, the Bank deals in government bond futures.

The table below summarises the Bank's assets, liabilities and off-balance sheet liabilities in maturity intervals, categorised by earlier repayment, settlement, maturity or next contractual repricing date or by interest rate repricing date.

(thou. of lats)	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	More than 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	-	-	-	-	-	-	4,949	4,949
Balances due from credit institutions	48,809	-	766	-	32	-	-	49,607
Loans and advances to non-banking customers	3,103	3,162	10,759	4,038	6,084	1,574	-	28,720
Bonds and other fixed income securities	1,872	8,883	724	1,174	14,123	8,115	-	34,891
Shares and other non-fixed income securities	-	-	-	-	-	-	16	16
Derivatives	-	-	-	-	-	-	58	58
Investments in associated entities	-	-	-	-	-	-	12	12
Fixed assets	-	-	-	-	-	-	3,351	3,351
Prepayments and accrued income	-	-	-	-	-	-	935	935
Other assets	-	-	-	-	-	-	153	153
Total assets	**53,784**	**12,045**	**12,249**	**5,212**	**20,239**	**9,689**	**9,474**	**122,692**
Liabilities and shareholders' equity								
Balances due to credit institutions and central banks	917	-	-	2	4	-	-	923
Deposits from the public	93,836	3,871	2,115	3,521	3,189	-	-	106,532
Derivatives	-	-	-	-	-	-	1	1
Deferred income and accrued expense	-	-	-	-	-	-	418	418
Provision for liabilities and charges	-	-	-	-	-	-	133	133
Other liabilities	-	-	-	-	-	-	1,119	1,119
Shareholders' equity	-	-	-	-	-	-	13,566	13,566
Total liabilities and shareholders' equity	**94,753**	**3,871**	**2,115**	**3,523**	**3,193**	**-**	**15,237**	**122,692**
Futures, sold	-	-	-	-	-	(1,505)	-	(1,505)
Interest rate repricing maturity gaps	**(40,969)**	**8,174**	**10,134**	**1,689**	**17,046**	**8,184**	**(5,763)**	**-**

e) Operational Risks

During the course of its operations, the Bank may encounter non-financial risks with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, breakdowns in information systems, insufficient internal control and procedures, etc. The accounting and control procedures approved by the Bank's Development Committee address such risks by prescribing procedures for mitigating such risks.

4. Interest Income and Expense

	2001	2000
Interest income		
Interest on balances due from credit institutions	2,206,001	1,649,757
Interest on loans and advances to non-banking customers	3,336,488	2,071,590
Interest on bonds and other fixed income securities	2,904,056	2,173,247
Other interest income	1,145	9,998
Total interest income	**8,447,690**	**5,904,592**
Interest expense		
Interest on balances due to credit institutions and central banks	159,723	91,632
Interest on deposits from the public	2,575,405	2,025,471
Other interest expense	48,985	36,850
Total interest expense	**2,784,113**	**2,153,953**

5. Commission and Fee Income and Expense

	2001	2000
Commission and fee income		
Commission on payment transfers on behalf of customers	2,164,200	1,673,066
Commission on transactions with settlement cards	310,031	204,166
Commission on granting loans	232,486	116,589
Service fees	219,704	196,352
Commission on cash operations	192,683	241,855
Other commission and fee income	227,954	211,899
Total commission and fee income	**3,347,058**	**2,643,927**
Commission and fee expense		
Correspondent bank service charges	426,979	382,904
Interbank and other communication system charges	203,651	254,145
Commission on transactions with settlement cards	173,885	109,307
Other commission and fee expense	65,184	55,571
Total commission and fee expense	**869,699**	**801,927**

6. Profit from Trading with Financial Instruments

	2001	2000
Profit from foreign currency exchange	793,435	1,104,901
Profit/(loss) from security revaluation	615,732	(190,625)
Profit from security trading	407,563	716,563
(Loss) from revaluation of foreign currency	(86,477)	(123,320)
Total profit from trading with financial instruments	**1,730,253**	**1,507,519**

7. Other Operating Income

	2001	2000
Income from rent of fixed assets	14,611	23,380
Income from security exchange	-	415,485
Income from sale of investments in associated entity	-	239,613
Other income	29,800	37,789
Total other operating income	**44,411**	**716,267**

8. Administrative Expense

	2001	2000
Remuneration to the Council and the Board	164,237	130,831
Remuneration to other personnel	1,386,418	712,503
Social security contributions and similar costs	370,348	209,563
Donations	305,632	18,118
Premises' repair and maintenance costs	179,675	101,056
Communication expense	140,602	136,866
Advertising and marketing expense	129,609	124,155
Other administrative expense	462,021	408,816
Total administrative expense	**3,138,542**	**1,841,908**

In 2001, the Bank employed an average of 220 (170) persons.

The following table specifies employees of the Bank by personnel categories.

	31.12.2001.	31.12.2000.
Management	9	9
Heads of divisions and departments	45	31
Other personnel	198	148
Total	**252**	**188**

9. Provision Expense for possible Credit losses and Release of Previously Established Provisions

	2001	2000
Specific provision at the beginning of the year	654,907	3,569,838
General provision at the beginning of the year	329,464	103,764
Total provision at the beginning of the year	**984,371**	**3,673,602**
Specific provision charged to statement of income	1,272,252	968,096
General provision charged to statement of income	242,796	225,700
Total provision charged to statement of income	**1,515,048**	**1,193,796**
Release of previously established specific provision	(86,177)	(1,078,972)
Release of previously established general provision	(83,222)	-
Recovery of written-off assets	(14,453)	-
Total release of previously established provisions	**(183,852)**	**(1,078,972)**
Total provision expense, net	**1,331,196**	**114,824**
Decrease in provision due to currency fluctuations	**(6,539)**	**(18,619)**
Reversal of specific provision due to write-offs	**(418,721)**	**(2,785,436)**
Specific provision at the end of the year	1,401,269	654,907
General provision at the end of the year	489,038	329,464
Total provision at the end of the year	**1,890,307**	**984,371**

The special provisions included in the statement of income include the value adjustment of long-term investment in the amount of LVL 341,198.

The following table shows the structure of the total provisions established by the Bank for possible credit losses as at 31 December 2001 and 2000:

	31.12.2001.		31.12.2000.	
	Specific provision	General provision	Specific provision	General provision
Balances due from credit institutions and central banks	1,467	44,783	-	128,006
Loans and advances to non-banking customers	884,024	444,255	576,134	201,458
Bonds and other fixed income securities	344,437	-	-	-
Investments in subsidiaries	72,900	-	72,900	-
Prepayments and accrued income	24,554	-	5,873	-
Other assets	73,887	-	-	-
Total	**1,401,269**	**489,038**	**654,907**	**329,464**

10. Corporate Income Tax

	2001	2000
Profit before corporate income tax	4,989,306	5,481,350
Excess of tax depreciation (over) financial accounting depreciation for fixed assets	(317,726)	(275,395)
Other (decreases)/increases in taxable income	(775)	495,342
Tax losses brought forward	-	(5,299,329)
Taxable income for the reporting year	4,670,805	401,968
Corporate income tax (25%)	1,167,701	100,492
Tax deductions for donations	(233,520)	(14,458)
Tax deductions for corporate income tax paid abroad	(68,181)	(38,681)
Corporate income tax expense for the reporting year	**866,000**	**47,353**
Adjustment of prior year's corporate income tax	21,624	-
(Decrease)/increase in deferred corporate income tax	(72,000)	103,000
Total corporate income tax expense	**815,624**	**150,353**

As at 31 December 2001, the Bank had no tax debts.

11. Cash and Demand Deposits with Central Banks

	31.12.2001.	31.12.2000.
Cash	2,502,923	2,206,427
Deposits with the Bank of Latvia	2,446,448	3,040,166
Total cash and demand deposits with the Bank of Latvia	**4,949,371**	**5,246,593**

Deposits with the Bank of Latvia comprise correspondent account balance as at 31 December 2001.

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement set at 5% (6%) of the average monthly cash balance (including ATMs) and correspondent account balance with the Bank of Latvia. As at 31 December 2001, the Bank was in compliance with this requirement.

12. Balances Due from Credit Institutions

Upon evaluating its exposure in the interbank market, the management of the Bank resolved to establish general provisions for the balances due from credit institutions incorporated in countries of non-OECD area, except for the balances due from the credit institutions incorporated in the Baltic countries, in the amount of 2% of average balance during the previous month.

	31.12.2001.	31.12.2000.
Due from credit institutions registered in OECD area	46,181,420	27,461,923
Due from credit institutions registered in Latvia	338,052	539,652
Due from credit institutions registered in other countries	3,133,767	6,674,972
Total balances due from credit institutions	**49,653,239**	**34,676,547**
Less provision for possible credit losses (see Note 9)	(46,250)	(128,006)
Total balances due from credit institutions, net	**49,606,989**	**34,548,541**

As at 31 December 2001, the Bank had established correspondent relationships with 21 (20) credit institutions registered in the OECD area, 2 (4) credit institutions registered in Latvia and 28 (33) financial institutions incorporated in other non-OECD countries.

	OECD area	Latvia	Other countries	Total 31.12.2001.	Total 31.12.2000.
Balances due from credit institutions					
Correspondent account balances	13,337,928	306,152	2,932,272	16,576,352	18,668,993
Overnight deposits	6,557,892	-	108,129	6,666,021	4,771,803
Collateral deposits	765,600	31,900	-	797,500	644,665
Term deposits	25,520,000	-	93,366	25,613,366	10,591,086
Total balances due from credit institutions	**46,181,420**	**338,052**	**3,133,767**	**49,653,239**	**34,676,547**
Less provision for possible credit losses (see Note 9)	-	-	(46,250)	(46,250)	(128,006)
Total balances due from credit institutions, net	**46,181,420**	**338,052**	**3,087,517**	**49,606,989**	**34,548,541**

As at 31 December 2001, the Bank had inter-bank balances with six correspondent credit institutions incorporated in the OECD area, where the aggregate balance due from those credit institutions comprised 89% of total balances due from credit institutions incorporated in the OECD area, and inter-bank balances with two correspondent credit institutions registered in other countries, where the aggregate balance due from those credit institutions comprised 87% of all balances due from credit institutions incorporated in other countries.

13. Loans and Advances to Non-banking Customers

The management of the Bank has adopted the policy to establish general provisions for regular loans not secured by deposits in the amount of 1% of the loans and advances to private individuals and in the amount of 2.5% of the loans and advances to corporate customers, as well as in the amount of 5% of the non-secured credit facilities on the settlement cards.

	31.12.2001.	31.12.2000.
Loans and advances to non-banking customers		
Regular loans	12,348,643	6,767,688
Mortgage loans	10,405,816	7,674,547
Utilised credit lines	4,769,270	3,853,343
Overdraft facilities on current accounts	1,145,866	147,760
Finance leases	765,704	244,173
Debit balances on credit cards	612,430	332,990
Total loans and advances to non-banking customers	**30,047,729**	**19,020,501**
Less provisions for potential credit losses (see Note 9)	(1,328,279)	(777,592)
Total loans and advances to non-banking customers, net	**28,719,450**	**18,242,909**

Latvian banking legislation requires that any credit exposure to a non-related entity or a 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.
As at 31 December 2001, 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 shows the distribution of outstanding loans and advances to non-banking customers by their interest accrual basis as at 31 December 2001.

	31.12.2001.	31.12.2000.
Interest accrual basis		
Accrual basis	28,697,901	18,364,235
Non-accrual basis	1,349,828	656,266
Total loans and advances to non-banking customers	**30,047,729**	**19,020,501**
Less provision for possible credit losses (see Note 9)	(1,328,279)	(777,592)
Total loans and advances to non-banking customers, net	**28,719,450**	**18,242,909**

The table below specifies the outstanding loans and advances by customer profile.

	31.12.2001.	31.12.2000.
Customer profile		
Privately held companies	17,276,729	11,039,436
Municipal enterprises	98,000	135,000
Public and religious institutions	856	3,790
Bank's employees	321,894	383,140
Other private individuals	12,350,250	7,459,135
Total loans and advances to non-banking customers	**30,047,729**	**19,020,501**
Less provision for possible credit losses (see Note 9)	(1,328,279)	(777,592)
Total loans and advances to non-banking customers, net	**28,719,450**	**18,242,909**

The industry analysis of loans and advances granted to corporate customers is provided below.

	31.12.2001.	31.12.2000.
Industry profile		
Trading	6,799,147	5,229,388
Real estate administration	3,068,309	1,188,128
Construction	1,507,781	1,860,266
Other service industries	884,159	827,550
Manufacturing	757,569	449,811
Transport and communication	672,261	296,364
Financial brokerage	620,152	4,365
Agriculture and forestry	334,717	308,925
Other industries	2,730,634	1,009,639
Gross loans and advances to corporate customers	**17,374,729**	**11,174,436**

The industry profile of loans with an initial maturity of up to one year is determined by the Bank according to the industry where the borrower operates, while for loans with an initial maturity exceeding one year it is determined according to the purpose of the loan granted (by the industry for the development of which the loan has been issued).

An outstanding finance lease portfolio can be specified by assets leased as follows.

	31.12.2001.	31.12.2000.
Type of assets		
Transport vehicles	765,704	228,773
Other assets	-	15,400
Total gross finance leases	**765,704**	**244,173**

14. Bonds and Other Fixed Income Securities

As a result of changes in the Bank's accounting policies due to adoption of IAS No. 39 and on the basis of the principles defined in the Bank's trading portfolio policy, on 1 January 2001 the Bank revised its classification of bonds and other fixed income securities as trading and investment portfolios. As a result of the revision, securities with a carrying value of LVL 14,151 thousand were transferred to the trading portfolio. During 2001, the management of the Bank also resolved to transfer Ukrainian government bonds with the nominal value of USD 7,000 thousand to the trading portfolio. The profit resulting from the transfer due to marking-to-market Ukrainian government bonds is included in the statement of income for the reporting year under caption "Profit from trading with financial instruments".
As at 31 December 2001, the Bank's investment portfolio included Ukrainian government bonds with a carrying value of LVL 4,223 thousand, or 68.72% of their nominal value, while the trading portfolio included bonds with a carrying value of LVL 1,143 thousand, or 95.32% of their nominal value, which is equivalent to the market value of these securities.

	31.12.2001.	31.12.2000.
Treasury bills	19,887,708	12,648,497
Bonds issued by credit institutions	10,768,388	7,612,876
Bonds issued by privately held companies	4,579,202	2,327,630
Total bonds and other fixed income securities	**35,235,298**	**22,589,003**
Less provision for possible credit losses (see Note 9)	(344,437)	-
Total bonds and other fixed income securities, net	**34,890,861**	**22,589,003**

	31.12.2001.		31.12.2000
	Investment portfolio	Trading portfolio	Investment portfolio
Latvian Treasury bills	-	7,536,172	2,476,554
Bonds issued in OECD area			
Government bonds	1,183,119	-	1,265,959
Bonds issued by credit institutions	-	10,198,334	7,323,099
Bonds issued by privately held companies	-	3,997,641	1,755,079
Bonds issued in other countries			
Government bonds	7,455,467	3,712,950	8,905,984
Bonds issued by credit institutions	-	570,054	289,777
Bonds issued by privately held companies	301,890	279,671	572,551
Total bonds and other fixed income securities	**8,940,476**	**26,294,822**	**22,589,003**
Less provision for possible credit losses (see Note 9)	(344,437)	-	-
Total bonds and other fixed income securities, net	**8,596,039**	**26,294,822**	**22,589,003**

As a result of evaluating the risk associated with the Bank's investment portfolio, the Bank has established special provisions for Argentinean government bonds in the amount of LVL 344,437.
The market value of the Bank's investment portfolio as at 31 December 2001 was LVL 10,637 thousand.

The following table presents the distribution of the investments made by the Bank in bonds and other fixed income securities by listed and unlisted securities.

	31.12.2001.		31.12.2000.	
	Listed	Unlisted	Listed	Unlisted
Latvian Treasury bills	7,536,172	-	2,476,554	-
Bonds issued in OECD area				
Government bonds	1,183,119	-	1,265,959	-
Bonds issued by credit institutions	10,198,334	-	7,323,099	-
Bonds issued by privately held companies	3,677,796	319,845	1,755,079	-
Bonds issued in other countries				
Government bonds	11,168,417	-	8,905,984	-
Bonds issued by credit institutions	570,054	-	289,777	-
Bonds issued by privately held companies	279,671	301,890	284,396	288,155
Total bonds and other fixed income securities	**34,613,563**	**621,735**	**22,300,848**	**288,155**
Less provision for possible credit losses (see Note 9)	(344,437)	-	-	-
Total bonds and other fixed income securities, net	**34,269,126**	**621,735**	**22,300,848**	**288,155**

15. Shares and Other Non-Fixed Income Securities

	31.12.2001.	31.12.2000.
Equity shares in Latvian corporate entities	4,781	8,585
Equity shares in foreign corporate entities	11,470	11,682
Total shares and other non-fixed income securities	**16,251**	**20,267**

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

			31.12.2001.			31.12.2000.
(thou. of lats)	Listed	Unlisted	Total	Listed	Unlisted	Total
Corporate entities registered in OECD area countries	-	11,470	11,470	-	11,682	11,682
Latvian companies	4,781	-	4,781	8,585	-	8,585
Total shares and other non-fixed income securities	**4,781**	**11,470**	**16,251**	**8,585**	**11,682**	**20,267**

16. Financial Instruments

The table below presents the notional amounts of foreign currency exchange contracts and other derivative financial instruments and their fair values. The notional value of foreign currency exchange contracts is the amount receivable. The notional value of other derivative financial instruments is the value of the underlying assets on these instruments. The counterparties to futures are residents of the OECD area.

	Notional value		Fair value			
			Receivable		Payable	
	31.12.2001.	31.12.2000.	31.12.2001.	31.12.2000.	31.12.2001.	31.12.2000.
Foreign currency exchange contracts						
Spots	6,608,902	1,795,848	-	1,631	18,143	-
Derivatives						
Forwards	-	646,497	-	675	-	-
Swaps	3,401,627	3,128,326	42,315	-	-	182,090
Total foreign currency exchange contracts	**10,010,529**	**5,570,671**	**42,315**	**2,306**	**18,143**	**182,090**
Interest rate derivatives						
Futures, sold	1,519,010	1,113,731	15,105	-	1,316	23,625
Total interest rate derivatives	**1,519,010**	**1,113,731**	**15,105**	**-**	**1,316**	**23,625**

The result of foreign exchange spots is included in the balance sheet items as "Other assets" and "Other liabilities".

17. Investments in Subsidiaries and Associated Entities

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

		31.12.2001.		31.12.2000.	
	Business profile	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 9)		(72,900)	-	(72,900)	-
Investments in subsidiaries, net		**-**	**-**	**-**	**-**
Investments in associated entities					
A/s AB Konsultācijas	Consulting	12,000	30%	-	-
Total investments in associated companies		**12,000**	**30%**	**-**	**-**

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

	SIA Veiksmen Elektroniks	SIA Riventa	A/s AB Konsultācijas	Total
Cost value of investments				
As at 1 January 2001	51,100	21,800	-	72,900
Investments in share capital	-	-	12,000	12,000
As at 31 December 2001	51,100	21,800	12,000	84,900

Since, as at 31 December 2002, the management of the Bank had resolved to liquidate both subsidiaries and since the remaining assets and liabilities of the subsidiaries were immaterial, the Bank has not prepared consolidated financial statements for the years ended 31 December 2001 and 2000. As at 31 December 2001, the Bank's subsidiaries were still undergoing liquidation.

18. Fixed Assets

	31.12.2001.	31.12.2000.
Land	108,006	108,006
Buildings and property improvements	1,563,949	1,625,716
Leasehold improvements	353,266	19,534
Transport vehicles	199,807	152,303
Office equipment		
EDP equipment	635,342	445,560
Other fixed assets	424,914	337,768
Prepayments for fixed assets	65,699	8,283
Total net book value of fixed assets	**3,350,983**	**2,697,170**

The following table demonstrates movements in the Bank's fixed assets during the year ended 31 December 2001.

	Land	Buildings and property improve-ments	Leasehold improve-ments	Transport vehicles	Office equipment	Total fixed assets excluding prepayments
Historical cost						
As at 1 January 2001	108,006	1,917,634	22,051	286,777	2,063,965	4,398,433
Additions	-	33,831	336,083	102,859	576,871	1,049,644
Disposals	-	-	-	(58,395)	(52,522)	(110,917)
As at 31 December 2001	108,006	1,951,465	358,134	331,241	2,588,314	5,337,160
Accumulated depreciation						
As at 1 January 2001	-	291,918	2,517	134,474	1,280,637	1,709,546
Charge for the year	-	95,598	2,351	49,250	299,943	447,142
Reversal due to disposals	-	-	-	(52,290)	(52,522)	(104,812)
As at 31 December 2001	-	387,516	4,868	131,434	1,528,058	2,051,876
Net book value						
As at 1 January 2001	108,006	1,625,716	19,534	152,303	783,328	2,688,887
As at 31 December 2001	108,006	1,563,949	353,266	199,807	1,060,256	3,285,284
Depreciation rate (straight-line method)	-	5%	10-17%	20%	10-33%	

19. Prepayments and Accrued Income

	31.12.2001.	31.12.2000.
Accrued interest income	843,846	573,188
Accrued income from sale of associated entity	78,265	120,000
Prepayments	34,754	28,312
Other accrued income	3,045	1,729
Total prepayments and accrued income	**959,910**	**723,229**
Less provisions for possible credit losses (see Note 9)	(24,554)	(5,873)
Total prepayments and accrued income, net	**935,356**	**717,356**

Accrued interest income comprises mainly accrued interest income on bonds and other fixed income securities, which as at 31 December amounted to LVL 579,723 (340,394).

20. Other Assets

	31.12.2001.	31.12.2000.
Cash held with securities brokerage company	52,450	47,988
Clearing balances related to credit cards	20,710	33,317
Input VAT on finance lease	-	39,483
Unrealised gain arising from foreign exchange spots	-	1,631
Other short-term assets, net	80,115	82,244
Total other assets, net	**153,275**	**204,663**

21. Balances Due to Credit Institutions and Central Banks

The following table provides an analysis of balances due to credit institutions and central banks by their place of incorporation.

	31.12.2001.	31.12.2000.
Balances due to the Bank of Latvia	650,000	-
Balances due to credit institutions incorporated in OECD area	224,701	-
Balances due to credit institutions incorporated in other countries	48,489	3,855,289
Total balances due to credit institutions and central banks	**923,190**	**3,855,289**

The following table provides an analysis of balances due to credit institutions and central banks by their maturity.

	31.12.2001.	31.12.2000.
Repo transaction	650,000	-
Balances repayable on demand	261,706	1,273,333
Term deposits	-	1,839,000
Collateral deposits	11,484	742,956
Total balances due to credit institutions and central banks	**923,190**	**3,855,289**

22. Deposits from the Public

	31.12.2001.	31.12.2000.
Sector profile		
Privately held companies	80,410,620	52,527,203
Private individuals	23,449,082	16,338,783
State enterprises	2,217,665	116,849
Municipalities	392,700	399,613
Central governments	36,982	16,928
Public and religious organisations	24,934	21,096
Privately held financial institutions	35	125
Total deposits from the public	**106,532,018**	**69,420,597**
Geographical profile of customers' residence		
Residents	8,341,251	4,220,089
Non-residents	98,190,767	65,200,508
Total deposits from the public	**106,532,018**	**69,420,597**

23. Deferred Income and Accrued Expense

	31.12.2001.	31.12.2000.
Accrued interest expense	327,933	226,664
Other accrued expense	89,521	73,191
Total deferred income and accrued expense	**417,454**	**299,855**

24. Provisions for Liabilities and Charges

	31.12.2001.	31.12.2000.
Provision for employee holiday pay	99,619	62,508
Deferred corporate income tax	31,000	103,000
Dividends payable	2,030	980
Total provisions for liabilities and charges	**132,649**	**166,488**

The table below presents the calculation of deferred corporate income tax.

	31.12.2001.		31.12.2000.	
	Amounts subject to timing differences	Tax rate	Amounts subject to timing differences	Tax rate
Taxation difference on fixed assets depreciation	729,567	22%	412,000	25%
Taxation difference on general provisions	(489,038)		-	
Taxation difference on employee holiday pay	(99,619)		-	
Deferred corporate income tax	**140,910**	**31,000**	**412,000**	**103,000**

According to the Republic of Latvia's legislation, starting in 2002 the corporate income tax is to be gradually reduced. Therefore, in calculating the deferred corporate income tax as at 31 December 2001, the corporate income tax rate of 22% was applied.
During 2001, the Management of the Bank revised the method used for calculating deferred corporate income tax by including in the calculations taxation difference on general provisions and employee holiday pay.

25. Other Liabilities

	31.12.2001.	31.12.2000.
Corporate income tax	781,063	47,353
Suspense amounts	150,421	176,716
Unrealised loss arising from foreign exchange spots	18,143	-
Other liabilities	169,465	202,609
Total other liabilities	**1,119,092**	**426,678**

Suspense amounts comprise outstanding incoming transfers for which the payment details are not specified sufficiently so that the Bank can with reasonable assurance place these balances in the appropriate customers' accounts.

26. Memorandum Items

	31.12.2001.	31.12.2000.
Contingent liabilities		
Letters of credit	616,796	635,736
Outstanding guarantees	311,028	361,155
Total contingent liabilities	**927,824**	**996,891**
Financial commitments		
Unutilised credit lines	2,749,943	1,203,980
Undrawn credit facilities on settlement cards	1,794,132	1,301,018
Loan commitments	820,853	406,510
Total financial commitments	**5,364,928**	**2,911,508**
Total contingent liabilities and financial commitments	**6,292,752**	**3,908,399**

27. Paid-In Share Capital

As at 31 December 2001, the issued and registered share capital of the Bank amounted to LVL 5,000,000 (5,000,000). The share capital consists of ordinary shares only. All the shares have a par value of LVL 50 (50) each.
As at 31 December 2001, the Bank had 155 (168) shareholders, including 33 (35) legal entities and 122 (133) private individuals holding a total of 100,000 shares, including 60 shares assigned to the Board of the Bank without voting rights. The members of the Board directly hold 50.06% (37.72%) of the share capital, while the members of the Council hold 46.16% (34.85%) of the share capital.

The major shareholders of the Bank are as follows.

	31.12.2001.		31.12.2000.	
	Paid-in share capital	% of total paid-in share capital	Paid-in share capital	% of total paid-in share capital
Oļegs Fiļs	2,291,700	45.83	999,700	19.99
Ernests Bernis	2,240,050	44.80	1,649,900	33.00
Aleksandrs Bergmanis	193,400	3.87	566,600	11.33
SIA H.E.C.Konsultants	-	-	524,500	10.49
Total	**4,725,150**	**94.50**	**3,740,700**	**74.81**

28. Related Parties

Related parties are defined as shareholders who have a 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.

		31.12.2001.		31.12.2000.
(thou. of lats)	Amount	Terms	Amount	Terms
Loans issued to related parties				
Management	112	8%	251	10.5%
Related legal entities	234	9—12%	416	2—11%
Other related private individuals	46	8%	25	10%
Total loans issued to related parties	**392**		**692**	
Loan commitments	31	12%	36	12%
Less provisions for potential credit losses	**(4)**		**(314)**	
Net loans and loan commitments	**419**		**414**	
Percentage of shareholders' equity (see Note 29),%	3.09		4.18	

The Bank has also issued guarantees to related parties totalling LVL 12,760 (12,260) for American Express credit cards. The guarantees are secured by deposits.

All related party deposits bear standard interest rates offered by the Bank. As at 31 December 2001, total deposits placed with the Bank by related parties held with the Bank amounted to LVL 129,076 (72,286).

29. Capital Adequacy

The guidelines of the Financial and Capital Market Commission for calculating capital adequacy do not differ materially from the recommendations in the Basle Committee guidelines. According to the Basle Committee guidelines, the minimum capital adequacy ratio is 8%. As at 31 December 2001, the capital adequacy ratio calculated in accordance with the Financial and Capital Market Commission's requirements was 22.38% (22.32%).

(thou. of lats)	31.12.2001.	31.12.2000.
Tier 1		
Paid-in share capital	5,000	5,000
Share premium	255	255
Legal and other reserves	1,250	1,002
Retained earnings	2,888	(1,695)
Current year unappropriated profit	4,173	5,331
Total Tier 1	**13,566**	**9,893**
Total shareholders' equity	**13,566**	**9,893**
Capital charge for credit risk	5,109	4,379
Capital charge for foreign currency risk	73	53
Capital charge for position risk	852	-
Capital charge for counter party risk	28	-
Total capital charge for market risks	953	53
Total capital charge	6,062	4,432
Capital adequacy ratio (%)	**22.38**	**22.32**
Minimum capital adequacy ratio (%)	10.00	10.00

The credit risk capital charge is calculated as follows.

		Financial and Capital Market Commission requirements	
(thou. of lats) **Assets**	31.12.2001.	Risk weighting (%)	Weighted assets 31.12.2001.
Cash and demand deposits with central banks	4,949	0	-
Balances due from:			
credit institutions incorporated in OECD area	46,181	20	9,236
credit institutions incorporated in other countries	3,088	100	3,088
on demand from Latvian credit institutions	306	20	61
from Latvian credit institutions (except on demand)	32	50	16
Loans and advances to non-banking customers			
Secured by deposits	2,881	0	-
Fully secured by a mortgage of residential property			
Registered with Land Book	1,180	50	590
Other loans	24,659	100	24,659

(thou. of lats) Assets	31.12.2001.	Financial and Capital Market Commission requirements Risk weighting (%)	Weighted assets 31.12.2001.
Bonds within investment portfolio:			
government bonds issued in OECD area	1,183	0	-
government bonds issued in other countries	7,111	100	7,111
privately held company bonds	302	100	302
Bonds and shares of trading portfolio	26,300	*	-
Prepayments	35	50	18
Accrued income, 0% risk weighted	58	0	-
Accrued income, 20% risk weighted	8	20	2
Accrued income, 50% risk weighted	8	50	4
Accrued income, 100% risk weighted	406	100	406
Accrued interest income and other assets of trading portfolio	468	*	-
Fixed assets, investments in associated entities, other shares, derivatives and other assets	**3,537**	**100**	**3,537**
Total assets	**122,692**		**49,030**
Memorandum items			
Memorandum items with 100% credit equivalent			
Guarantees secured by deposits	148	0	-
Other guarantees	163	100	163
Irrevocable stand-by letters of credit secured by deposits	46	0	-
Other stand-by letters of credit	31	100	31
Memorandum items with 50% credit equivalent			
Documentary letters of credit secured by deposits	281	0	-
Other documentary letters of credit	129	100	65
Financial commitments			
0% risk weighted	1,744	0	-
50% risk weighted	164	50	41
100% risk weighted	3,457	100	1,729
Memorandum items with 20% credit equivalent			
Documentary letters of credit secured by deposits	30	0	-
Other documentary letters of credit provided against bills of landing or shipment documents	100	100	20
Total memorandum items	**6,293**		**2,049**
Foreign currency exchange contracts (1%)	34	20	7
Interest rate derivatives (2%)	30	*	-
Total	**129,049**	**-**	**51,086**
Total credit risk capital charge			**5,109**

* The capital charge for assets and derivatives included in the Bank's trading portfolio is calculated as part of the capital charge calculations for position risk and counterparty risk.

30. Cash and Cash Equivalents

	31.12.2001.	31.12.2000.
Cash and demand deposits with the Bank of Latvia	4,949,371	5,246,593
Balances due from credit institutions	48,855,739	33,480,182
Balances due to credit institutions	(917,129)	(3,234,934)
Total cash and cash equivalents	**52,887,981**	**35,491,841**

To the shareholders of a/s Aizkraukles Banka

We have audited the accompanying balance sheet of a/s Aizkraukles banka (the Bank) as at 31 December 2001 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements, set out on pages 20 to 51, are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. 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 at 31 December 2001, and the results of its operations and cash flows for the year then ended in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board, applied on a consistent basis.

ANDERSEN Andersen

Riga,
5 March 2002

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