

Serious, vital, dynamic, knowledgeable, precise and progressive bank

Annual Report

2002

A serious, vital, dynamic, knowledgeable, precise and progressive bank. A and B are the first two letters of the alphabet. They also form the core of the new logo of Aizkraukles Bank – AB.LV. Aizkraukles Bank represents leadership potential, the strengths of youth, contemporary thinking and experience. The major resource that enables the Bank to maintain its growth is its human resource; the personnel who define strategic goals for the Bank and for themselves. Our staff forms a coherent team – loyal, professional and self-assured. At Aizkraukles Bank we know the formula for success – a personal and understanding attitude towards clients and employees alike.

Serious, vital, dynamic, knowledgeable, precise and progressive bank



Seriousness:

PAULS BIKIS:

Head of Payment Cards Department

- *Employed at Aizkraukles Bank since 1995.*
- *Graduated from the Riga International College of Economics and Business Administration with a Master's degree in Business Management and Administration and the Economics Department of the University of Latvia.*
- *Married with a daughter.*
- *Hobbies: cycling, diving, listening to folk and Ambient music.*

Pauls Biķis

"Aizkraukles Bank began issuing payment cards in 1997, and at the moment we have over 7000 cardholders. The newest Aizkraukles Bank product is our virtual card for Internet transactions; the card minimises the element of risk within transactions. With the development of Internet commerce, virtual cards will become more and more popular. The magic of payment cards is that it can be used all over the world and the money in your card account is safer than the money in your wallet. If you lose your wallet you lose your money but a lost card is easy to block by calling the Bank or a service centre. I think that virtual payments will increasingly replace cash payments



and that payment cards will play ever more significant role in our lives. I use several payment cards so I know how convenient they can be. I think the design of the card is an important marketing element. This small plastic card is the world-wide business card of the Bank. The core values of the Bank are its knowledgeable management and the professionalism and enthusiasm of its staff. Employees want to develop themselves and grow with the Bank. The policy of the Bank is friendliness to its clients and its direction is innovation and effective service. Aizkraukles Bank is a forward-thinking bank where modern technology is applied and the client has access to advanced solutions."

AB on Pauls: *Pauls enjoys testing his abilities under extreme conditions. That is why he enjoys diving, conquering deep and mysterious places such as Velnezers and Dridzis, the deepest lake in Latvia. In the future, Pauls would like to dive in a Norwegian fjord or swim in a shark-filled sea and explore the jungles of the Amazon. It is no coincidence that Pauls is a candidate member of the National Geographical Society. Pauls thinks that Aizkraukles Bank is like a wise, respectable and serious gentleman – simple but with a sense of style. These same characteristics can also be applied to Pauls.*

ALISA OZOLA:

Documentary Operations Specialist

- *Employed at Aizkraukles Bank for five years.*
- *Married with daughter, Maria.*
- *A graduate of the Radio Electronics and Computing Systems Division of Riga Aviation University.*
- *Interested in ballroom dancing and sport: basketball, tae kwon do, aikido, handball, and roller blading.*
- *For good luck she keeps a figurine of a scarabeus on her desk.*

Vitality:



Alisa Ozola

"One of my major duties is to help clients to finance their business operations. Sometimes they are very large deals and at other times they may be very small. However, the Bank treats all of them equally. If I have helped a client then I am satisfied. It is such a good feeling to hear a simple "thank you". That's when I know I am needed, both by the Bank and the client. Everyone benefits. I enjoy the fact that my job is multifaceted, not monotonous; something different happens every day and each situation needs a different solution. It is important that client service is delivered smoothly. The Bank staff is cohesive and rich in tradition. We get together not only at work but also at our sports festival and the New Year party. In my opinion Aizkraukles Bank is new and on the move and there is no limit to our potential. I think that the soul of the Bank is its employees; but the cornerstone of growth is the sophistication of the Bank and that it sets ever-increasing goals. It is good to know that I help in achieving these."



AB on Alisa: *The name Alisa suits her – she is just as vital and romantic as Alice in Wonderland. However, Alisa is also very practical when she does her job. She consults clients on documentary operations and bank guarantees, developing the best financing solutions. Her consultations to clients are an important component of the services of the Bank. Alisa studied exact sciences because she is an analytical thinker. She is the heart of her department. She gladly shares her experience and knowledge in teaching other employees, because she believes that good results can only be achieved by working together. She enjoys the changing nature of life. Vitality strengthens relationships, both in Financial Institutions Department, as well as at home.*



Dynamism:

JĀNIS BRŪVERIS:

Dealer

- Graduate of the Riga International College of Economics and Business Administration – Master's degree in Business Management – and the Economics Department of the University of Latvia. Studied at the J. Mediņa School of Music.
- Married with a son and a daughter.
- Enjoys high speed. If the passengers do not object, Jānis will drive his car at lightning speed; he likes listening to good music.
- Source of fantasy – compact discs and literature.
- Likes the vibrancy of Central-Asian cooking, a taste acquired during past business trips to Kazakhstan and Uzbekistan. Would like to travel to New Zealand.

Jānis Brūveris



"I help Aizkraukles Bank to set its policy on currency trading so that the Bank makes a profit. My bottom line is the profit margin of the Bank balanced against the wishes of our clients to spend as little as possible. Our first principle is that we must keep our clients satisfied. Currency trading is a field with tremendous opportunity. I enjoy a dynamic atmosphere. A trader must be able to react quickly; when two phones are ringing and the monitor is beeping, I must still be able to concentrate on the interests of the Bank. I do not accept the concept of "We have earned enough for us and our children; let's get out of the game!" Work itself provides satisfaction! Principles and ethics are important in banking. If you see your partner making a mistake, you cannot use this mistake to your own advantage. It is reassuring to know that this principle is observed in reality within the Bank. I know that people say it is good to change jobs from time to time; but after working at Aizkraukles Bank for many years I can still say that I enjoy being here. I am always stimulated by my work and Aizkraukles Bank has also shown its loyalty to me. I enjoy working with intellectuals and people with good taste; it makes me feel a flow of creativity; it is also satisfying to know that the output of my work is needed by others."

AB on Janis: *Janis Bruveris and currency trading have become synonymous at Aizkraukles Bank because he has worked in the Bank from its first day. Janis is fascinated by the fact that the machine which he sells currency with does not have a backspace key; a decision cannot be reversed once it has been taken. It is very important for a currency dealer to spot future trends and to act logically. For Janis, speed is in the depth of his heart both in his thoughts, and in his way of life. Doing nothing bores him; because of this he surrounds himself with people who keep themselves busy. Janis is an explorer; it is this word that best describes his personality. He is equally fascinated both by distant lands and walks along the seashore following a November storm.*





ILZE GAŅE:

Lawyer in Administrative Matters

- *Employed at Aizkraukles Bank since 2001.*
- *Graduated from Oxford University and the University of Latvia.*
- *At Oxford she was a member of the European Affairs Society and the Oxford University Student Union.*
- *Hobbies: snowboarding, tennis and historical essays.*
- *A toy dog always makes her smile.*



Knowledge: Ilze Gaņģe

"I think that my position at Aizkraukles Bank is a logical continuation of my law studies – it was a new challenge and an opportunity to prove myself. The atmosphere at the Bank is one of progressive growth and high-quality service. In my opinion, in a competitive climate like today it is very important to try predict the future and find ways of adjusting to it. Working at the bank is like snowboarding: you need to concentrate fully on your goal but you also need to anticipate difficult situations and at the same time work out ways of avoiding them. It is necessary to choose the correct path at every moment of the descent. Only this way



you can make sure you do not fall. I am fascinated by spirit of novelty and youth of Aizkraukles Bank, its vitality and its rapid growth. Even the interior of the Bank, its tasteful use of colour, demonstrates its open character – light, openness and friendliness is reflected everywhere. Working at Aizkraukles Bank does not mean that you fear your boss; it is the total opposite. The ideas of employees are valued here and so is the desire for self growth and self development. The Bank inspires me to grow professionally. Anyone can see that the Bank values professional specialists because its priority is long-term development. "

AB on Ilze: *Ilze possesses a remarkable amount of knowledge which we draw on every day to resolve the legal issues of the Bank. She handles contracts for insurance, construction, copyright and other matters. Ilze is goal-oriented, sophisticated and athletic. She learned to work independently when she was a student and she also learned how to conserve her energy to ensure that tasks were completed. In the evenings, Ilze reads lectures on European and International Law at the Department of Law of the University of Latvia. Ilze is goal oriented – she once mentioned in the ninth school-grade that she would like to study at Oxford. At the time this goal seemed as distant as flying to the moon. But thanks to her willpower and determination Ilze achieved this goal.*

Precision:

"I regularly came into contact with the Bank in my previous job and I began to realise that I wanted to make a change from my small island to the mainland – to the Bank. The Bank is a complicated mechanism where numerous elements are operating simultaneously and weak links unacceptable. For this reason we must work with a high degree of responsibility and precision. There is no room for error. The priority of our department is to control the flow of payment information. If I was asked



whether the Bank was a man or a woman, I would say that it was like a man because I associate Aizkraukles Bank with professional management. However, the oxygen and the stable nervous system of the Bank belong to a woman, performing vital tasks on the inside. It is important to me that clients trust the Bank and my job has to be interesting too. For me this is a matter of my personal growth. I feel good at the Bank – as if I was at home. For all these reasons I see the achievement of my future goals within Aizkraukles Bank."

AB on Anna: *The Payment Department is the largest in the Bank; nineteen operators and administrators work there. Currently most important projects in the division are the implementation of new payment information formats and the automation of payment data control. Anna's contribution to projects is significant; she performs her work with precision and integrity, maintaining the highest level of quality in all the transactions of the Bank. Anna is interested in modern technology so she could not imagine working in an old fashioned bank. The business of the Bank is part of our life. The business of the Bank is a service business. Anna is convinced that the Bank will be successful when clients are satisfied with its services. If the work is enjoyable, there will also be peace and prosperity at home.*



Serious, vital, dynamic, knowledgeable, precise and progressive bank

Anna Semeņako



ANNA SEMEŅAKO:

Deputy Head of Payment Department

- *Employed at Aizkraukles Bank since 1999.*
- *Graduate of the Department of Economics and Management of Riga Aviation University.*
- *Drawn to warm countries, stormy seas and mountain peaks.*
- *Enjoys an active lifestyle to keep herself in good mental and physical shape.*
- *On her desk there is always a flower growing in a pot. Anna likes all flowers.*

Progress:

"I have worked at Aizkraukles Bank for eight years. Our department is currently working on approximately 15 projects – improving existing Bank products, implementing new ones and perfecting new work systems. Project management at the Bank is an art form which helps both the Bank and its clients to achieve their goals. Tradition was the key to success in banking in the 19th century, and today it is the opposite. These days information is not located at one central point. We try to ensure that when a client logs onto *www.ab.lv* he feels that he is actually in the Bank regardless of where he is in the world. The way that we customise the services of the Bank for individual clients and our effectiveness and flexibility in providing these services will continue to be the focus of our attention. It is increasingly important to engage our clients in conversation, to understand their needs today to be able to predict their needs tomorrow. My job demands both creativity and precision. Our department tests the ideas of tomorrow just as Jules Verne



did in his books when he drew upon his creativity to create the practical miracles of his time – from flying machines to submarines. It is important never to be satisfied with past accomplishments, but to look to the future and imagine the unlimited possibilities for understanding the significance of events and creating new solutions. Managing projects requires creative thinking and team spirit. The only limitation we face is that the solution must match the original problem. Why is cohesiveness so important? It is like the workshop of a tailor: for the suit to fit well the tailor must cut the fabric properly, the seamstress must sew in the lining properly and the assistant must know how to fasten the buttons. Aizkraukles Bank and I work in a similar way – we are open to new ideas, share an ability to think creatively, maintain good relations and enjoy working. We are like good friends. I think that working at the Bank will enable me to achieve my goals – someday I will have a wife and three children, a house on an island and modern technology will always permit me to be at the epicentre of events."

AB on Mihails: *There are 13 employees in the department that Mihails leads: project managers, analysts and programmers. Mihails is not afraid of the new and unknown, new challenges or futuristic projects. Mihails always looks to the distant future. He believes that the most important asset of the Bank in the 22nd century will still be access to information and its effective use. And the staff of our Bank have already laid the foundations for success – in the previous century!*

Serious, vital, dynamic, knowledgeable, precise and progressive bank

Mihails Mohovs

MIHAILS MOHOVS:

Head of Project Management Department

- Graduate of the Riga Aviation University, he specialised in advanced physics, including nuclear and quantum physics.
- Studied theatre in secondary school.
- Reads science fiction in his spare time because science fiction knows no boundaries.
- Enthusiastic about sport: tennis, basketball and swimming.
- Likes to make intellectual gifts.

Aizkraukles Banka Financial Statements 2002

Contents:

Management Report	16
Management of the Bank	19
Statement of the Responsibility of the Management	20
Financial Statements :	
Statements of Income	21
Balance Sheets and Memorandum Items	22
Statements of Changes in Shareholders' Equity	23
Statements in Cash Flows	24
Notes to Financial Statements	25
Auditors' Report	48

Management Report

In 2002, a/s Aizkraukles banka (hereinafter – the Bank) met its projected financial objectives and achieved a much higher level of development. The new identity of the Bank enhances its achievements by improving the quality of customer service and symbolically presenting the Bank's ambitions. The Bank continues its development process, expanding in both Latvian and international markets.

To achieve its long-term strategic goal of increasing its market share, the Bank has made significant investments in its development. A new corporate image has been introduced. The new image stresses the core values of the Bank – dynamic growth, an individual approach and modern technologies. A new trademark, AB.LV, has been created and promoted by extensive campaigns aimed at achieving recognition and public awareness in local and international markets.

The increasing operations of the Bank have resulted in the creation of new jobs. At year end, the Bank employed 301 employees. During the year, the number of personnel has grown by 49 persons.

The achieved level of development resulted in the segregation of strategic and administrative management of the Bank. Within the framework of the new management structure, the Board of the Bank has been reorganised. The number of the Board members was reduced from six to three persons, each of whom has been assigned responsibility for development of several functional areas and the strategic supervision of the Bank.

By common effort of the major shareholders at the Board, the decision-making processes within the Bank have been facilitated. The functional responsibility allows management of the development of new products and other projects involving several structural entities of the Bank in a more efficient way.

Along with the reorganisation of the management structure, the Business Technologies Division has been established, the responsibilities of which include the implementation of new business methods, as well as training and improvement of qualifications of personnel. The Management of the Bank believe that following the increase in the number of new clients and last year's substantial growth in turnover, the structural reorganisation will bear fruit in the upcoming year.

Due to expansion of operations and the increasing number of personnel, the Bank has commenced the reconstruction and extension of its head office at Elizabetes Street 23, Riga. The first stage of the reconstruction was completed in March, when the central customer service office was opened at Elizabetes Street 21a. Investments in the new customer service office amounted to LVL 779,664, most of which has been allocated for the purchase of the most up-to-date security systems.

The investments in the second stage of the reconstruction of the Bank's head office last year amounted to LVL 491,632, whereas in general the investments allocated for the second stage of the project amount to LVL 3.1 million. In order to carry out the reconstruction, in June the administration of the Bank, as well as other back-office units, temporarily moved to a nearby top-level office building at Mednieku Street 4a.

Following the Bank's strategy, which aims at development of operations in the most active business districts of Riga, in May 2002 the Bank opened a new customer service centre, "Purvciems". By striving towards the improvement of customer service, the Bank is working on transformation of its current settlement centres into customer service centres, both by expanding the premises and by offering a wider range of services. Last year the reconstruction of customer service centre "Imanta" was accomplished.

Implementation of modern technologies lies in the basis of the Bank's operations. In our efforts to achieve the quality that meets international standards, in March we introduced a new internet home page, which is regularly and promptly updated. While implementing the Bank's priority task to improve remote banking facilities, in July the Bank released a new account management solution, "Internetbank AB.LV".

Management Report

During the reporting year, the Bank entered into a cooperation agreement with a/s Latvijas Unibanka on special conditions for customers of a/s Aizkraukles banka to use a/s Latvijas Unibanka's ATM network.

In 2002, the Bank exceeded projected profit. The profit earned last year totalled LVL 3.7 million. The Board has recommended to the general meeting of shareholders to pay dividends amounting to LVL 10 per share and to transfer the remaining part to retained earnings.

Return on average assets (ROA) of the Bank is still one of the highest among Latvian commercial banks – 2.7% per annum. Liquidity has reached 80%, whereas return on average equity (ROE) has reached 24.6%. Earnings per share (EPS) amounted to LVL 37.5.

During the reporting year, the Bank's assets have grown by 43%, reaching LVL 175.2 million. At the end of the year, total funds attracted by the Bank amounted to LVL 157.4 million, which is by LVL 49.9 million or 46% more than at the end of 2001.

Last year the Bank achieved a substantial increase in mortgage lending. Currently in excess of LVL 41.9 million, the Bank's gross loan portfolio compared to the year 2001 has increased by LVL 11.8 million or 39%. 89% of the portfolio comprises loans to residents of Latvia. Private lending accounts for 41%, while corporate lending for 59% of the Bank's gross loan portfolio. In comparison with the previous year, the volume of loans issued to private individuals has increased by LVL 4.7 million, reaching LVL 17.4 million. Meanwhile, the volume of loans to legal entities amounted to LVL 24.5 million, demonstrating a growth by LVL 7.1 million in comparison to the previous year.

A substantial increase in the customer base has been achieved by offering the Bank's services in international markets. The number of accounts opened with the Bank by non-residents has increased by 30% compared to the previous year.

Several promising lending projects have been commenced on an international market level. Moreover, last year the Bank performed optimisation of its network of correspondent accounts. The Bank has consistently upgraded and expanded the direct selling system of banking services.

Last year the Bank obtained a licence from the Financial and Capital Market Commission, giving it authority to provide financial intermediary services, became a participant of the Latvian Central Depository and commenced offering securities brokerage services. The Bank has extensive experience in dealing with securities, and the efficiency of its securities portfolio management is demonstrated by the high profitability ratio of recent years.

To improve the placement and supervision of assets, in 2002 particular attention has been paid to evaluation and classification of assets. The Bank is developing a stricter approach, by setting quality criteria and improving its supervision mechanism. The Assets Evaluation Committee regularly evaluates the Bank's assets, thus ensuring a fairer presentation thereof in the balance sheet. The Risk Management Division performs regular analysis and supervision of financial risks, thus providing the basis for prompt decision-making with regard to reduction of risk exposure. The implementation of the new risk management procedures last year resulted also in minimising the operational risks of the Bank.

To ensure the quality of the Bank's loan portfolio, in 2002 the Credit Department was established, its main task being analyses of borrowers' solvency and credit risks. The department has upgraded credit supervision procedures within the Bank and is working on development of company rating systems.

At the end of the reporting year, the Bank finalised a development strategy for the upcoming five years. Along with the growing competition in the local market, in 2003 the Bank plans sufficiently dynamic growth of performance indices.

Management Report

In our efforts to increase the international competitiveness of the Bank, the Management highly appreciate the support of personnel and assessments by our customers. This is the main indicator of whether the Bank has come closer to the international financial market level for services provided and their quality. We will continue to grow along with our customers and the country we work in.

It is with strong confidence that a/s Aizkraukles banka faces the future with the extensive opportunities offered for the development of Latvia. The Management of the Bank are grateful to our clients and will continue promoting development in line with the Bank's strategy and long-term goal to serve clients.

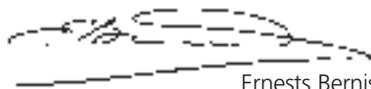
Riga, 28 February 2003

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

Management of the Bank

The Council of the Bank:

Chairman of the Council:

Aleksandrs Bergmanis

Deputy Chairman of the Council

Jānis Krēgers

Member of the Council:

Vladimirs Kutovojs

On 23 August 2002, the shareholders of the Bank released Ernests Bernis from his duties as Chairman of the Council and elected Aleksandrs Bergmanis.

The Board of the Bank:

Chairman of the Board:

Ernests Bernis

Deputy Chairman of the Board:

Oļegs Fiļs

Member of the Board:

Pāvels Šnejersons

On 23 August 2002, the shareholders of the Bank released Aleksandrs Bergmanis from his duties as Chairman of the Board and Zane Kurzemniece, Aleksandrs Pāže, Aivars Rausks from their duties as Board members, as well as Māris Kanneņieks from his duties as Board member candidate. Ernests Bernis was elected Chairman of the Board.

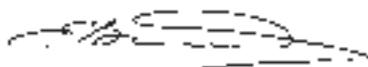
Riga, 28 February 2003

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

Statement of the Responsibility of the Management

The Management of the Bank are responsible for the preparation of the financial statements of the Bank. The financial statements are prepared in compliance with the requirements of the Republic of Latvia's "Law on Credit Institutions", the regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 21 to 47 are prepared in accordance with supporting documentation and present fairly the financial position of the Bank as of 31 December 2002 and 2001, the results of the Bank's operations, changes in shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared consistently applying accounting policies in accordance with International Financial Reporting Standards and on a going-concern 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 are 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. The Management of the Bank are also responsible for operating the Bank in compliance with the "Law on Credit Institutions", the regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

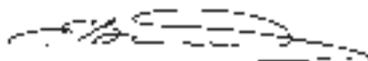
Riga, 28 February 2003

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

Statements of Income for the years ending 31 December 2002 and 2001

	Notes	2002	2001
Interest income	4	7,726,254	8,352,668
Interest expense	4	(1,761,082)	(2,784,113)
Net interest income		5,965,172	5,568,555
Income from securities		318	1,215
Commission and fee income	5	4,387,238	3,348,100
Commission and fee expense	5	(836,561)	(666,048)
Net commission and fee income		3,550,677	2,682,052
Profit on trading with financial instruments	6	1,603,139	1,730,253
Other operating income	7	159,167	129,979
Operating income		11,278,473	10,112,054
Administrative expense	8	(5,149,303)	(3,342,193)
Amortisation and depreciation of fixed assets and their value adjustments	19	(629,853)	(444,835)
Other operating expense	9	(409,107)	(4,524)
Provision expense for possible credit losses	10	(559,873)	(1,173,850)
Release of previously established provision	10	307,384	183,852
Loss from revaluation of long-term investments	10	(295,528)	(341,198)
Operating profit		4,542,193	4,989,306
Extraordinary expense		(14,674)	-
Profit before corporate income tax		4,527,519	4,989,306
Corporate income tax	11	(778,992)	(815,624)
Net profit for the year		3,748,527	4,173,682

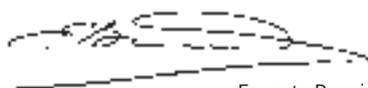
Riga, 28 February 2003

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

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

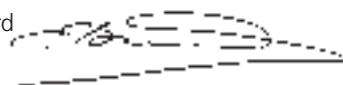
Balance Sheets and Memorandum Items as of 31 December 2002 and 2001

	Notes	31.12.02.	31.12.01.
Assets			
Cash and demand deposits with central banks	12	9,453,911	4,949,371
Balances due from credit institutions	13	66,615,138	49,606,989
Demand deposits		57,632,054	23,197,990
Other balances due from credit institutions		8,983,084	26,408,999
Loans and advances to non-banking customers	14	40,581,359	28,790,015
Debt securities and other fixed income securities	15	52,946,169	34,890,861
Government debt securities		24,023,428	19,543,271
Other debt securities and fixed income securities		28,922,741	15,347,590
Shares and other non-fixed income securities	16	50,281	16,251
Derivatives	17	34,941	57,420
Investments in associated entities	18	12,000	12,000
Intangible fixed assets	19	309,650	187,092
Tangible fixed assets	19	3,670,400	3,163,891
Prepayments and accrued income	20	889,565	935,356
Other assets	21	660,696	82,710
Total assets		175,224,110	122,691,956
Liabilities and shareholders' equity			
Balances due to credit institutions and central banks	22	862,897	923,190
Demand deposits		344,397	261,706
Term deposits		518,500	661,484
Deposits from the public	23	156,517,163	106,532,018
Demand deposits		130,467,062	88,074,666
Term deposits		26,050,101	18,457,352
Derivatives	17	58,976	1,316
Deferred income and accrued expense	24	367,979	417,454
Provisions for liabilities and charges	25	316,739	130,619
Other liabilities	26	288,592	1,121,122
Shareholders' equity		16,811,764	13,566,237
Paid-in share capital	28	10,000,000	5,000,000
Share premium		254,676	254,676
Own shares		(3,000)	-
Legal and other reserves		1,250,000	1,250,000
Retained earnings		1,561,561	2,887,879
Current year unappropriated profit		3,748,527	4,173,682
Total liabilities and shareholders' equity		175,224,110	122,691,956
Memorandum items			
Funds under trust management		-	136,535
Contingent liabilities	27	1,452,755	927,824
Guarantees		1,036,679	311,028
Other contingent liabilities		416,076	616,796
Financial commitments	27	18,023,059	5,364,928

Chairman of the Council
Aleksandrs Bergmanis



Chairman of the Board
Ernests Bernis



Riga, 28 February 2003

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

Statements of Changes in Shareholders' Equity for the years ending 31 December 2002 and 2001

	Paid-in share capital	Share premium	Own shares	Legal and other reserves	Retained earnings	Total shareholders' equity
As of 1 January 2001	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
As of 31 December 2001	5,000,000	254,676	-	1,250,000	7,061,561	13,566,237
Dividends paid	-	-	-	-	(500,000)	(500,000)
Increase in paid-in share capital	5,000,000	-	-	-	(5,000,000)	-
Acquisition of own shares	-	-	(3,000)	-	-	(3,000)
Net profit for 2002	-	-	-	-	3,748,527	3,748,527
As of 31 December 2002	10,000,000	254,676	(3,000)	1,250,000	5,310,088	16,811,764

In 2002, the Bank's shareholders resolved to increase the share capital by transferring LVL 5 million from retained earnings and increasing the nominal value of each share to LVL 100 (50).

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

Statements of Cash Flows for the years ending 31 December 2002 and 2001

	2002	2001
Cash inflow/ (outflow) from operating activities		
Profit before corporate income tax	4,527,519	4,989,306
Amortisation and depreciation of fixed assets and their value adjustments	629,853	453,247
Increase in provision for possible credit losses	476,163	1,339,110
Increase in provisions for liabilities and charges	35,120	35,081
Loss from revaluation of foreign currency positions	3,354	86,477
Loss/ (profit) from disposal of fixed assets	373,202	(1,952)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	6,045,211	6,901,269
(Decrease) in deferred income and accrued expense	(49,475)	(66,351)
Decrease/ (increase) in prepayments and accrued income	44,769	(294,101)
Decrease/ (increase) in other assets	3,336	(24,130)
Increase/ (decrease) in other liabilities	5,473	(57,413)
(Increase) in short-term investments	(15,661,250)	(11,347,496)
(Increase)/ decrease in balances due from credit institutions	(1,014,200)	398,865
(Increase) in loans and advances to non-banking customers	(11,885,167)	(11,460,402)
(Decrease) in balances due to credit institutions and central banks	(6,061)	(614,294)
Increase in deposits from the public	49,985,144	37,111,421
Increase in cash and cash equivalents from operating activities before corporate income tax	27,467,780	20,547,368
(Corporate income tax paid)	(1,853,342)	(153,910)
Increase in cash and cash equivalents from operating activities	25,614,438	20,393,458
Cash flow inflow/ (outflow) from investment activities		
(Purchase) of fixed assets	(1,854,638)	(1,115,472)
(Purchase) of equity investments in other entities and other long-term investments	2,699,184	(1,306,783)
Sale of fixed assets	54,430	10,364
(Decrease) in cash and cash equivalents from investment activities	(4,499,392)	(2,411,891)
Cash (outflow) from financing activities		
Dividends (paid)	(499,280)	(498,950)
(Acquisition) of own shares	(3,000)	-
(Decrease) in cash and cash equivalents from financing activities	(502,280)	(498,950)
Increase in cash and cash equivalents, net	20,612,766	17,482,617
Cash and cash equivalents at the beginning of the year	52,887,981	35,491,841
(Loss) from revaluation of foreign currency positions	(3,354)	(86,477)
Cash and cash equivalents at the end of the year	73,497,393	52,887,981

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

Notes to Financial Statements

1. General information

(Figures in parenthesis in text represent figures as of 31 December 2001 or for the year ending 31 December 2001, unless otherwise stated.)

As 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 Skolas Street 8, Aizkraukle, to Elizabetes Street 23, Riga.

Due to the reconstruction and expansion of the main office building from May 2002, the Bank leases premises for its administration at Mednieku Street 4a, Riga. After the accomplishment of the reconstruction, the Bank's administration will continue its work at the registered office – Elizabetes Street 23, Riga.

The Bank operates a branch in Aizkraukle, three customer service centres and two settlement centres in Riga. Its main scope of activity is 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 financial services specified under the "Law on Credit Institutions".

2. Information on principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently (unless otherwise stated) throughout the years ending 31 December 2002 and 2001, is set out 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 accounting 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 regulations of the Financial and Capital Market Commission.

c) Basis of Preparation

The financial statements are prepared in accordance with IFRS and the Financial and Capital Market Commission's regulations on Bank's Financial Statements. For comparison purposes, the Bank has performed a reclassification of certain items of the balance sheet as of 31 December 2001 and statement of income for the year then ended. Thereby, software that is not an integral part of hardware and that have previously been included in tangible fixed assets, is classified as intangible fixed assets; funds placed with non-banking institutions and security deposits that have previously been classified as other assets, are classified as loans and advances to non-banking customers; communication related expense that has previously been included in commission expense, is classified as administrative expense; and income from penalties that have previously been included in interest and commission income, is classified as other operating income.

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 paragraph j). Recognition of interest income is suspended at the time when becomes uncertain 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, unless considered as an integral part of effective yield.

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 Latvian Labour Law 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 exchange rates 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 exchange rates set forth by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the date of 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:

Reporting date	USD	EUR	RUB
31 December 2002	0.594	0.610000	0.01870
31 December 2001	0.638	0.560856	0.02110

g) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 22% (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 reverse. The principal timing differences arise from differing rates and methods of accounting and tax depreciation on fixed assets, general provision for possible credit losses, provision for employee holiday pay, and the revaluation of balance sheet items, including securities.

h) Loans and Advances to Non-banking Customers

Loans and advances to non-banking customers represent the outstanding principal balance, less provision for possible credit losses (impairment), as presented in Note 10.

For the purposes of these financial statements, financial lease receivables are classified as loans and advances to non-banking customers.

i) Leases

Finance leases 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) Provision for Possible Credit Losses

Non-performing loans and advances to customers including banking institutions are defined as loans and other credit balances in which contractually due principal is 30 days or more overdue, contractually due interest is 90 days or more overdue, or the Management otherwise 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 have considered both specific and general (portfolio) risks in determining the balance of provision for possible credit losses (impairment). 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 that is deemed impaired. The level of the provision is based on present value of expected future cash flows, 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 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 determining expected cash flows and accordingly the required provision.

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 have made their best estimates of losses and believe the estimates presented in the financial statements to be 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 ultimate amount of the loss is determined.

k) Debt Securities and Other Fixed Income Securities

Trading Portfolio

Fixed income securities are included in the trading portfolio if they have been acquired for the purpose of generating a profit from short-term fluctuations of 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.

Securities held for trading purposes are initially stated at cost and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from marking-to-market the trading portfolio, as well as any gain or loss resulting from disposal of the above securities, is included in the statement of income under "Profit on trading with financial instruments".

Investment Portfolio

The investment portfolio is comprised of debt securities and other fixed income securities intended to be held to maturity.

The securities included in the investment portfolio are stated at cost and adjusted for amortised discount/ premium, calculated on the basis of effective interest rate method, less provision for possible credit losses. In 2001, the amortisation of the discount/ premium was calculated on a straight-line basis, and the restructured debt securities were recorded at cost. The discount/ premium is gradually recorded in the statement of income from the securities acquisition date to maturity.

Provision for fixed income securities is 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 provision is 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 all recoverable amounts in the future, by applying a discount rate which equals the original effective interest rate.

Available-for-Sale Portfolio

During the reporting year, the Bank did not hold any fixed income security that has been classified as available-for-sale portfolio.

l) Shares and Other Non-Fixed Income Securities

Shares and other non-fixed income securities are classified by the type of investment, according to the above principles for classification of fixed-income securities.

Investments in listed shares held for trading purposes are marked-to-market.

Any unrealised gain or loss resulting from marking-to-market the listed shares, as well as any gain or loss resulting from disposal of the above securities, is included in the statement of income under "Profit on trading with financial instruments".

If the market price of investments cannot be determined, the shares are stated in the balance sheet at cost, less provision established based on the recoverability of the investment.

m) Investments in Associated Entities

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) Intangible Assets

Intangible assets comprise the purchased software that does not constitute an integral part of hardware and licences. Amortisation is provided using the straight-line method over the period of acquired rights or, if it is not determined, over 5 years.

o) Tangible Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements, under the course of construction and preparation are not depreciated.

The following amortisation/depreciation rates have been applied:

Category	Annual rate	
	2002	2001
Buildings and property improvements	5%	5%
Transport vehicles	20%	20%
EDP equipment and software	20-25%	20-25%
Office equipment	10-33%	10-33%

Costs of maintenance and repair, not resulting in increasing capacity or prolongation of useful life, are charged to the statement of income as incurred.

In 2002, the Bank's building was being renovated and during the reconstruction the Bank has suspended the calculation of the building depreciation.

Leasehold improvements are capitalised and amortised over the remaining period of lease contract on a straight-line basis.

p) Derivatives and Other Off-balance Sheet Instruments

Derivatives

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 titled "Derivatives" under assets and liabilities, respectively. Any gain or loss resulting from revaluation of derivatives is recognised in the statement of income as "Profit on 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 presented 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 and advances to non-banking customers as described in paragraph j) above.

q) 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. 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 represent the amounts comprising cash and balances due from the Bank of Latvia and other credit institutions with original maturity of 3 months or less, short-term government bonds with an original maturity of 3 months or less, less balances due to credit institutions with the original maturity of 3 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 Council of the Bank and 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 follow the Bank's operational and financial markets' development, 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 will be 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 one borrower and geographical or industry segments. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The Council of the Bank 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 the evaluation of corporate borrowers' financial position, maximum exposures per industry in which the borrowers operate, types of loans and other criteria, as well as defines the maximum amount of the loan portfolio and the maximum exposure to any single customer or a group of customers.

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

For effective credit risk management, the Bank's Asset Evaluation Committee performs a regular analysis of assets and off-balance sheet liabilities, i.e., their recoverability. Depending on the results of such analysis, the amount of general and specific provision is determined.

The Bank believes that its exposure to credit risk arises mainly from 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.

(thous. of lats)	Latvia	USA	European Union member states	Other countries in OECD area	Other countries	Total
Assets						
Cash and demand						
deposits with central banks	7,219	1,487	725	21	2	9,454
Balances due from credit institutions	1,867	36,420	24,496	369	3,463	66,615
Loans and advances to non-banking customers	35,804	1,590	1,117	1	2,069	40,581
Debt securities and other fixed income securities	9,071	600	16,600	7,190	19,485	52,946
Other assets	5,026	12	182	125	283	5,628
Total assets	58,987	40,109	43,120	7,706	25,302	175,224
Off-balance sheet items	8,665	568	163	24	10,056	19,476
Total geographical concentrations of assets and off-balance sheet items	67,652	40,677	43,283	7,730	35,358	194,700

The issuers incorporated in a country only for the purpose of attraction of 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 ensure reasonably priced credit facilities. Based on the Bank's liability structure, the Council of the Bank has approved a liquidity management policy incorporating a requirement on maintaining a high level of liquidity.

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

The liquidity of the Bank is ensured by the Financial Markets Division, 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 bands based on the remaining period, as of balance sheet date, to the contractual maturity date.

(thous. of Iats)	Overdue	On demand	Up to 1 month	1 – 6 months	6 – 12 months	1 – 5 years	More than 5 years	Undated	Total
Assets									
Cash and demand deposits with central banks	-	9,454	-	-	-	-	-	-	9,454
Balances due from credit institutions	-	57,639	7,165	772	891	-	-	148	66,615
Loans and advances to non-banking customers	68	2,100	729	7,830	6,520	18,083	5,251	-	40,581
Debt securities and other fixed income securities	-	41,716	-	445	445	3,827	6,513	-	52,946
Shares and other non-fixed income securities	-	-	-	-	-	-	-	50	50
Derivatives	-	35	-	-	-	-	-	-	35
Investments in associated entities	-	-	-	-	-	-	-	12	12
Intangible fixed assets	-	-	-	-	-	-	-	310	310
Tangible fixed assets	-	-	-	-	-	-	-	3,670	3,670
Prepayments and accrued income	2	96	251	509	32	-	-	-	890
Other assets	-	114	-	-	-	-	-	547	661
Total assets	70	111,154	8,145	9,556	7,888	21,910	11,764	4,737	175,224
Liabilities									
Balances due to credit institutions and central banks	-	862	-	-	-	-	-	-	862
Deposits from the public	-	130,484	6,866	6,889	6,638	5,640	-	-	156,517
Derivatives	-	59	-	-	-	-	-	-	59
Deferred income and accrued expense	-	277	50	11	-	30	-	-	368
Provisions for liabilities and charges	-	-	-	-	-	-	-	317	317
Other liabilities	-	289	-	-	-	-	-	-	289
Shareholders' equity	-	-	-	-	-	-	-	16,812	16,812
Total liabilities and shareholders' equity	-	131,971	6,916	6,900	6,638	5,670	-	17,129	175,224
Memorandum items									
Guarantees	-	2	4	83	477	459	12	-	1,037
Letters of credit	-	-	161	208	47	-	-	-	416
Unutilised credit lines	-	12,545	-	-	-	-	-	-	12,545
Undrawn credit facilities on settlement cards	-	1,891	-	-	-	-	-	-	1,891
Loan commitments	-	1,368	-	-	-	-	-	-	1,368
Capital expenditure commitments	-	-	277	1,386	556	-	-	-	2,219
Total memorandum items	-	15,806	442	1,677	1,080	459	12	-	19,476
Net liquidity position	(36,623)	787	979	170	15,781	11,752	(12,392)	-	-
Total liquidity position	(36,623)	(35,836)	(34,857)	(34,687)	(18,906)	(7,154)	(19,546)	-	-

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

- assets are stated at their remaining period to repayment or potential disposal;
- assets overdue for more than 14 days are stated as overdue;
- assets as well as all debit balances on settlement cards and current account overdrafts overdue less than 14 days are presented under the caption “On demand”;
- securities within the Bank’s trading portfolio are highly liquid securities, which, if necessary, can be sold at minimum loss, therefore in the maturity profile they are also presented under the caption “On demand”;
- assets without fixed maturity are assets for which, according to the substance of the transactions, maturity is not defined or assets the maturity of which cannot be precisely determined;
- liabilities and memorandum items are stated at the remaining period to their settlement;
- liabilities without any defined maturity and commitments are presented under the caption “Undated”.

Assets that 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 no less than 30% of the Bank’s total current liabilities. As at 31 December 2002, the Bank’s liquidity ratio calculated in accordance with the Financial and Capital Market Commission’s requirements was 80% (81%).

c) Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. 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 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 2002:

(thous. of lats)	LVL	USD	EUR	RUB	Other currencies	Total
Assets						
Cash and demand deposits						
with central banks	7,219	1,488	617	-	130	9,454
Balances due from credit institutions	3	56,649	6,526	958	2,479	66,615
Loans and advances to non-banking customers	8,386	28,084	4,111	-	-	40,581
Debt securities and other fixed income securities	6,791	41,650	4,505	-	-	52,946
Shares and other non-fixed income securities	38	-	12	-	-	50
Derivatives	35	-	-	-	-	35
Investments in associated entities	12	-	-	-	-	12
Intangible fixed assets	310	-	-	-	-	310
Tangible fixed assets	3,670	-	-	-	-	3,670
Prepayments and accrued income	124	550	213	-	3	890
Other assets	644	15	2	-	-	661
Total assets	27,232	128,436	15,986	958	2,612	175,224
Liabilities						
Balances due to credit institutions and central banks	13	318	531	-	-	862
Deposits from the public	6,600	132,871	13,849	1,001	2,196	156,517
Derivatives	13	28	18	-	-	59
Deferred income and accrued expense	95	240	32	-	1	368
Provisions for liabilities and charges	317	-	-	-	-	317
Other liabilities	173	62	5	24	25	289
Total liabilities	7,211	133,519	14,435	1,025	2,222	158,412
Shareholders' equity	16,812	-	-	-	-	16,812
Total liabilities and shareholders' equity	24,023	133,519	14,435	1,025	2,222	175,224
Net long/ (short) position on balance sheet	3,209	(5,083)	1,551	(67)	390	-
Off-balance sheet foreign exchange contracts, assets/ (liabilities)	(3,639)	4,522	(1,295)	-	412	-
Net open long/ (short) currency position	(430)	(561)	256	(67)	802	-
Percentage of shareholders' equity (%) (2.77)		(3.62)	1.65	(0.43)	5.17	-

The 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 of 31 December 2002, the Bank was in compliance with the above requirements 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 re-fixing 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 engages in government bond and interest rate futures.

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

(thous. 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	-	-	-	-	-	-	9,454	9,454
Balances due from credit institutions	64,804	-	772	891	148	-	-	66,615
Loans and advances to non-banking customers	2,919	2,640	24,683	4,450	5,519	370	-	40,581
Debt securities and other fixed income securities	7,674	20,959	1,822	3,148	9,596	9,747	-	52,946
Intangible fixed assets	-	-	-	-	-	-	310	310
Tangible fixed assets	-	-	-	-	-	-	3,670	3,670
Other assets	-	-	-	-	-	-	1,648	1,648
Total assets	75,397	23,599	27,277	8,489	15,263	10,117	15,082	175,224
Liabilities and shareholders' equity								
Balances due to credit institutions and central banks	862	-	-	-	-	-	-	862
Deposits from the public	137,350	3,162	3,727	6,638	5,640	-	-	156,517
Other liabilities	-	-	-	-	-	-	1,033	1,033
Shareholders' equity	-	-	-	-	-	-	16,812	16,812
Total liabilities and shareholders' equity	138,212	3,162	3,727	6,638	5,640	-	17,845	175,224
Futures, sold	-	-	-	-	-	(2,499)	-	(2,499)
Interest rate repricing maturity gaps	(62,815)	20,437	23,550	1,851	9,623	7,618	(2,763)	-

Average annual interest rates of interest bearing assets and liabilities:

Assets	2002	2001
Balances due from credit institutions	2.31%	6.83%
Loans and advances to non-banking customers	9.85%	13.44%
Debt securities and other fixed income securities	7.50%	9.50%
Liabilities		
Balances due to credit institutions and central banks	0.40%	3.20%
Deposits from the public	1.42%	3.36%

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, break-downs in information systems, insufficient internal control and procedures, etc. The accounting and control procedures approved by the Bank's Development Committee addresses such risks by designing activities for mitigating such risks.

4. Interest income and expense

Interest income	2002	2001
- interest on balances due from credit institutions	1,133,455	2,206,001
- interest on loans and advances to non-banking customers	3,164,889	3,241,466
- interest on debt securities and other fixed income securities	3,427,368	2,904,056
- other interest income	542	1,145
Total interest income	7,726,254	8,352,668

Interest expense		
- interest on balances due to credit institutions and central banks	15,941	159,723
- interest on deposits from the public	1,678,694	2,575,405
- other interest expense	66,447	48,985
Total interest expense	1,761,082	2,784,113

5. Commission and fee income and expense

Commission and fee income	2002	2001
- commission on payment transfers on behalf of customers	2,791,936	2,164,200
- commission on transactions with settlement cards	537,579	310,031
- commission on granting loans	364,929	232,486
- service fees	325,074	219,704
- commission on cash operations	211,263	192,683
- other commission and fee income	156,457	228,996
Total commission and fee income	4,387,238	3,348,100

Commission and fee expense		
- correspondent bank service charges	507,584	426,979
- commission on transactions with settlement cards	280,043	173,885
- other commission and fee expense	48,934	65,184
Total commission and fee expense	836,561	666,048

6. Profit on trading with financial instruments

	2002	2001
Profit from foreign currency exchange	1,300,181	793,435
(Loss) from revaluation of foreign currency positions	(3,354)	(86,477)
Profit from security trading	28,815	421,216
Profit from security revaluation	562,622	601,893
(Loss) from trading with other financial instruments	(238,411)	(13,652)
(Loss)/ profit from revaluation of other financial instruments	(46,714)	13,838
Total profit on trading with financial instruments	1,603,139	1,730,253

7. Other operating income

	2002	2001
Income from penalties	143,211	103,394
Income from rent and sales of fixed assets	10,966	10,140
Other income	4,990	16,445
Total other operating income	159,167	129,979

8. Administrative expense

	2002	2001
Remuneration to the Council and the Board	143,661	164,237
Remuneration to other personnel	1,993,002	1,386,418
Social security contributions	544,773	370,348
Premises repair and maintenance costs	566,589	179,675
Advertising and marketing expense	508,970	129,609
Inter-bank and other communication expense	423,797	344,253
Equipment maintenance expense and stationary	231,548	149,339
Donations	190,480	305,632
Other administrative expense	546,483	312,682
Total administrative expense	5,149,303	3,342,193

In 2002, the Bank employed an average of 277 (220) persons.

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

(number of employees)	31/12/2002	31/12/2001
Management	6	9
Heads of divisions and departments	56	45
Other personnel	239	198
Total	301	252

9. Other operating expense

	2002	2001
Loss from fixed assets disposal	358,528	-
Other operating expense	50,579	4,524
Total operating expense	409,107	4,524

10. Provision expense for possible credit losses and release of previously established provision

	2002	2001
Specific provision at the beginning of the year	1,401,269	654,907
General provision at the beginning of the year	489,038	329,464
Total provision at the beginning of the year	1,890,307	984,371
Specific provision charged to statement of income	796,399	1,272,252
General provision charged to statement of income	59,002	242,796
Total provision charged to statement of income	855,401	1,515,048
Release of previously established specific provision	(273,656)	(86,177)
Release of previously established general provision	(23,794)	(83,222)
Recovery of written-off assets	(9,934)	(14,453)
Total release of previously established provision	(307,384)	(183,852)
Total provision expense, net	548,017	1,331,196
Decrease in provision due to currency fluctuations	(71,854)	(6,539)
Reversal of specific provision due to write-offs	(208,026)	(418,721)
Specific provision at the end of the year	1,634,198	1,401,269
General provision at the end of the year	524,246	489,038
Total provision at the end of the year	2,158,444	1,890,307

The specific provision charged to the statement of income includes the value adjustment of long-term investment in the amount of LVL 295,528 (341,198).

The following table shows the structure of the total provision established by the Bank for possible credit losses as of 31 December 2002 and 2001:

	31/12/2002		31/12/2001	
	Specific provision	General provision	Specific provision	General provision
Balances due from credit institutions	156	102,785	1,467	44,783
Loans and advances to non-banking customers	936,671	421,461	884,024	444,255
Debt securities and other fixed income securities	615,533	-	344,437	-
Investments in subsidiaries	-	-	72,900	-
Prepayments and accrued income	16,377	-	24,554	-
Other assets	65,461	-	73,887	-
Total	1,634,198	524,246	1,401,269	489,038

11. Corporate income tax

Corporate income tax expense	2002	2001
Profit before corporate income tax	4,527,519	4,989,306
(Decrease) in taxable income subject to timing differences	(627,748)	(620,935)
Other (decrease)/ increase in taxable income	(91,487)	302,434
Taxable income for the reporting year	3,808,284	4,670,805
Corporate income tax 22% (25%)	837,823	1,167,701
Tax deductions	(188,781)	(301,701)
Corporate income tax expense for the reporting year	649,042	866,000
Adjustment of prior year corporate income tax	(21,050)	21,624
Increase/ (decrease) in deferred corporate income tax	151,000	(72,000)
Total corporate income tax expense	778,992	815,624

Deferred corporate income tax calculation:

	31/12/2002		31/12/2001	
	Amounts subject to timing differences	Tax rate	Amounts subject to timing differences	Tax rate
Accumulated excess of tax depreciation over accounting depreciation	1,043,174	15%	729,567	22%
General and other provisions	(656,430)	15%	(588,657)	22%
Revaluation of balance sheet items, net	826,589	15%	-	22%
Deferred corporate income tax liability	1,213,333	182,000	140,910	31,000

According to the Republic of Latvia's legislation, starting from 2002 the corporate income tax is gradually being reduced. Therefore, for the calculations of the deferred corporate income tax as of 31 December 2002, a corporate income tax rate of 15% was applied.

During 2002, the Management of the Bank revised the method used for calculation of deferred corporate income tax by taking into consideration the revaluation of balance sheet items. As a result of the above changes, the deferred tax liability which relates to prior periods increased by LVL 76 thousand.

The movements in tax accounts can be specified as follows:

	Corporate income tax	Personal income tax	Statutory social insurance contributions	Value added tax	Real estate tax
(Payable)/receivable as of 1 January 2001	(47,349)	-	(25,456)	39,483	-
Calculated	(866,000)	(326,655)	(511,212)	(83,162)	(25,285)
Prior period adjustments	(21,624)	-	-	9,601	1,582
Paid	153,910	326,655	490,116	33,532	23,703
(Payable) as of 31 December 2001	(781,063)	-	(46,552)	(546)	-
Calculated	(649,042)	(459,544)	(722,475)	(41,066)	(24,490)
Prior period adjustments	21,050	-	-	-	1,299
Paid	1,853,342	459,544	707,743	30,851	23,191
(Payable)/receivable as of 31 December 2002	444,287	-	(61,284)	(10,761)	-

12. Cash and demand deposits with central banks

	31/12/2002	31/12/2001
Cash	3,667,800	2,502,923
Deposits with the Bank of Latvia	5,786,111	2,446,448
Total cash and demand deposits with central banks	9,453,911	4,949,371

Deposits with the Bank of Latvia comprise correspondent account balance as of 31 December 2002.

According to a resolution of the Council of the Bank of Latvia, the average monthly cash (including ATMs) and correspondent account balance with the Bank of Latvia calculated based on the Bank of Latvia instructions should exceed the compulsory reserve requirement set at 5% (5%) of attracted deposits. As of 31 December 2002, the Bank was in compliance with this requirement.

13. Balances due from credit institutions

Upon evaluating its exposure in the inter-bank market, the Management of the Bank resolved to establish a general provision 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 last month.

	31/12/2002	31/12/2001
Due from credit institutions registered in OECD area	61,285,034	46,181,420
Due from credit institutions registered in Latvia	1,867,093	338,052
Due from credit institutions registered in other countries	3,565,952	3,133,767
Total balances due from credit institutions	66,718,079	49,653,239
Less provision for possible credit losses (see Note 10)	(102,941)	(46,250)
Total balances due from credit institutions, net	66,615,138	49,606,989

As of 31 December 2002, the Bank had established correspondent relationships with 20 (21) credit institutions registered in the OECD area, 2 (2) credit institutions registered in Latvia and 28 (28) financial institutions incorporated in other non-OECD countries.

Balances due from credit institutions					
	OECD area	Latvia	Other countries	Total 31/12/2002	Total 31/12/2001
Correspondent account balances	37,127,541	976,093	2,216,477	40,320,111	16,576,352
Overnight deposits	16,554,293	-	860,591	17,414,884	6,666,021
Collateral deposits	1,663,200	148,500	-	1,811,700	797,500
Term deposits	5,940,000	742,500	488,884	7,171,384	25,613,366
Total balances due from credit institutions	61,285,034	1,867,093	3,565,952	66,718,079	49,653,239
Less provision for possible credit losses (see Note 10)	-	-	(102,941)	(102,941)	(46,250)
Total balances due from credit institutions, net	61,285,034	1,867,093	3,463,011	66,615,138	49,606,989

As of 31 December 2002, the Bank had inter-bank balances with four correspondent credit institutions incorporated in the OECD area, where the aggregate balance due from those credit institutions comprised 82% of total balances due from credit institutions incorporated in the OECD area and inter-bank balances with three correspondent credit institutions registered in other countries, where the aggregate balance due from those credit institutions comprised 81% of all balances due from credit institutions incorporated in other countries.

14. Loans and advances to non-banking customers

The Management of the Bank have adopted the policy to establish general provision for regular loans not secured by deposits. General provision for loans issued to private individuals is established in accordance with the Bank's internal credit rating category within the range of 0.4% - 1% of the outstanding principal amounts, whereas general provision for loans issued to enterprises and non-secured credit facilities on the settlement cards is at a 1.5% and 5% level, respectively. General provision for overdrafts is established at a 1.5% level.

Loans and advances to non-banking customers	31/12/2002	31/12/2001
Regular loans	18,763,524	12,348,643
Mortgage loans	10,900,400	10,495,644
Utilised credit lines	9,006,399	4,679,442
Overdraft facilities on current accounts	1,223,727	1,145,866
Finance leases	1,086,551	765,704
Debit balances on credit cards	734,609	612,430
Collateral deposits	224,281	70,565
Total loans and advances to non-banking customers	41,939,491	30,118,294
Less provision for potential credit losses (see Note 10)	(1,358,132)	(1,328,279)
Total loans and advances to non-banking customers, net	40,581,359	28,790,015

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 of 31 December 2002, the Bank was in compliance with the above requirements for the non-zero risk credit exposure to related parties and non-related entities.

The following table provides the distribution of outstanding loans and advances to non-banking customers by their interest accrual basis:

Interest accrual basis	31/12/2002	31/12/2001
Accrual basis	40,582,532	28,768,466
Non-accrual bases	1,356,959	1,349,828
Total loans and advances to non-banking customers	41,939,491	30,118,294
Less provision for possible credit losses (see Note 10)	(1,358,132)	(1,328,279)
Total loans and advances to non-banking customers, net	40,581,359	28,790,015

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

Customer profile	31/12/2002	31/12/2001
Privately held companies	24,426,437	17,347,294
Municipal enterprises	81,000	98,000
Non-profit institutions serving private individuals	53,460	856
Bank's employees	629,157	321,894
Other private individuals	16,749,437	12,350,250
Total loans and advances to non-banking customers	41,939,491	30,118,294
Less provision for possible credit losses (see Note 10)	(1,358,132)	(1,328,279)
Total loans and advances to non-banking customers, net	40,581,359	28,790,015

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

Industry profile	31/12/2002	31/12/2001
Trading	9,345,339	6,799,147
Real estate administration	2,729,008	3,068,309
Manufacturing	2,444,169	757,569
Construction	1,182,456	1,507,781
Financial brokerage	1,165,097	620,152
Transport and communication	1,089,075	672,261
Other service industries	731,115	884,159
Agriculture and forestry	230,622	334,717
Other industries	5,590,556	2,801,199
Gross loans and advances to corporate customers	24,507,437	17,445,294

The industry profile of loans with initial maturity of up to 1 year is determined by the Bank based on the industry where the borrower operates, while for loans with initial maturity exceeding 1 year it is based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

Finance lease receivables:

Gross investment in finance lease	31/12/2002	31/12/2001
-within one year	11,425	6,899
-from 1 to 5 years	1,180,391	855,911
Total gross investment in finance lease	1,191,816	862,810
Less unrealised interest income	(105,265)	(97,106)
Finance lease receivables, gross	1,086,551	765,704
Less provision for possible credit losses	-	(400)
Total finance lease receivables, net	1,086,551	765,304

All assets financed by the Bank under finance lease arrangements are transport vehicles.

15. Debt securities and other fixed income securities

	31/12/2002	31/12/2001
Government debt securities	24,638,961	19,887,708
Debt securities issued by credit institutions	23,651,448	10,768,388
Debt securities issued by privately held companies	3,632,774	4,579,202
Debt securities issued by financial institutions	1,638,519	-
Total debt securities and other fixed income securities	53,561,702	35,235,298
Less provision for possible credit losses (see Note 10)	(615,533)	(344,437)
Total debt securities and other fixed income securities, net	52,946,169	34,890,861

The Bank's investments in fixed income debt securities are classified by the type of investment as follows:

	31/12/2002		31/12/2001	
	Investment portfolio	Trading portfolio	Investment portfolio	Trading portfolio
Latvian government debt securities	-	9,070,916	-	7,536,172
Debt securities issued in OECD area				
Government debt securities	2,484,683	796,792	1,183,119	-
Issued by credit institutions	-	22,503,634	-	10,198,334
Issued by financial institutions	-	1,638,519	-	-
Issued by privately held companies	-	3,632,774	-	3,997,641
Debt securities issued in other countries				
Government debt securities	9,360,655	2,925,915	7,455,467	3,712,950
Issued by credit institutions	-	1,147,814	-	570,054
Issued by privately held companies	-	-	301,890	279,671
Total debt securities and other fixed income securities	11,845,338	41,716,364	8,940,476	26,294,822
Less provision for possible credit losses (see Note 10)	(615,533)	-	(344,437)	-
Total debt securities and other fixed income securities, net	11,229,805	41,716,364	8,596,039	26,294,822

As a result of evaluating the risk associated with the Bank's investment portfolio, the Bank has established a special provision for Argentinean government bonds in the amount of LVL 357,333 (344,437) and for Brazilian government bonds in the amount of LVL 258,200.

The market value of the Bank's investment portfolio as of 31 December 2002 was LVL 13,664 (10,637) thousand.

As of 31 December 2002, the Bank had pledged Latvian government debt securities with the carrying amount of LVL 1,969 thousand as a collateral for swap transactions.

As of 31 December 2002, all debt securities and other fixed income securities held by the Bank, except debt securities issued by one privately held company in the amount of LVL 350,029, are listed on stock exchanges. Accordingly, as of 31 December 2001, debt securities issued by two privately held companies in the amount of LVL 621,735 were not listed on stock exchanges.

16. Shares and other non-fixed income securities

	31/12/2002	31/12/2001
Equity shares in Latvian corporate entities	37,806	4,781
Equity shares in foreign corporate entities	12,475	11,470
Total shares and other non-fixed income securities	50,281	16,251

The Bank's investments in non-fixed income securities are classified by the type of investment as follows:

	31/12/2002		31/12/2001	
	Investment portfolio	Trading portfolio	Investment portfolio	Trading portfolio
Corporate entities registered in OECD area	12,475	-	11,470	-
Latvian companies	30,375	7,431	-	4,781
Total shares and other non-fixed income securities	42,850	7,431	11,470	4,781

As of 31 December 2002 and 2001, all shares held by the Bank, except the shares of Latvian companies included in the trading portfolio, were not listed on stock exchanges.

17. Derivatives

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			
	31/12/2002	31/12/2001	Assets		Liabilities	
			31/12/2002	31/12/2001	31/12/2002	31/12/2001
Foreign currency exchange contracts						
Spots	7,151,429	6,608,902	27,831	-	-	18,143
Derivatives						
Forwards	651,020	-	12,466	-	2,544	-
Swaps	2,201,767	3,401,627	22,475	42,315	10,599	-
Total foreign currency exchange contracts	10,004,216	10,010,529	62,772	42,315	13,143	18,143
Interest rate derivatives						
Futures, sold	2,453,568	1,519,010	-	15,105	45,833	1,316
Total interest rate derivatives	2,453,568	1,519,010	-	15,105	45,833	1,316

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

18. 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:

	Business profile	Cost value		Equity share (%)	
		31/12/2002		31/12/2001	
Investments in subsidiaries					
SIA "Veiksmen Elektroniks"	Trading	-	-	51,100	98%
SIA "Riventa"	Trading	-	-	21,800	93%
Total investments in subsidiaries		-	-	72,900	-
Less provision for possible credit losses (see Note 10)		-	-	(72,900)	-
Investments in subsidiaries, net		-	-	-	-
Investments in associated entities					
A/s AB Konsultācijas	Consulting	12,000	30%	12,000	30%
Total investments in associated companies		12,000	30%	12,000	30%

At the end of 2000, the Management of the Bank resolved to liquidate both its subsidiaries. During 2002, the Bank completed the liquidation of its subsidiaries and wrote off their investments.

19. Intangible and tangible assets

	31/12/2002	31/12/2001
Intangible fixed assets	308,614	167,125
Prepayments for intangible fixed assets	1,036	19,967
Total intangible fixed assets	309,650	187,092
Land	103,792	108,006
Buildings and property improvements	1,498,947	1,563,949
Leasehold improvements	577,442	353,266
Transport vehicles	194,077	199,807
Office equipment:		
EDP equipment	502,985	468,217
Other tangible fixed assets	741,036	424,914
Prepayments for tangible fixed assets	52,121	45,732
Total tangible fixed assets	3,670,400	3,163,891
Total net book value of fixed assets	3,980,050	3,350,983

The following table demonstrates movements in the Bank's intangible and tangible fixed assets during the year ending 31 December 2002:

	Intangible fixed assets	Buildings and property Land improvements	Leasehold improvements	Transport vehicles	Office equipment	Total fixed assets excluding prepayments
Historical cost						
As of 1 January 2002	319,434	108,006	1,951,465	358,134	331,241	2,268,880
Additions	211,765	-	494,833	297,622	112,842	750,118
Disposals	-	(4,214)	(842,086)	-	(137,517)	(381,590)
As of 31 December 2002	531,199	103,792	1,604,212	655,756	306,566	2,637,408
Accumulated depreciation						
As of 1 January 2002	152,309	-	387,516	4,868	131,434	1,375,749
Charge for the year	70,276	-	71,866	73,446	60,396	353,869
Reversal due to disposals	-	-	(354,117)	-	(79,341)	(336,231)
As of 31 December 2002	222,585	-	105,265	78,314	112,489	1,393,387
Net book value						
As of 1 January 2002	167,125	108,006	1,563,949	353,266	199,807	893,131
As of 31 December 2002	308,614	103,792	1,498,947	577,442	194,077	1,244,021
Depreciation rate (straight-line method)						
	20-25%	-	5%	10-50%	20%	10-33%

Buildings and property improvements comprise prepayments and construction in progress related to the reconstruction of the building in the amount of LVL 491,632.

20. Prepayments and accrued income

	31/12/2002	31/12/2001
Accrued interest income	815,794	843,846
Accrued income from sale of associated entity	26,080	78,265
Prepayments	39,479	34,754
Other accrued income	24,589	3,045
Total prepayments and accrued income	905,942	959,910
Less provision for possible credit losses (see Note 10)	(16,377)	(24,554)
Total prepayments and accrued income, net	889,565	935,356

Accrued interest income is mainly comprised of accrued interest income on debt securities and other fixed income securities, which as of 31 December 2002 constituted LVL 619,385 (LVL 579,723).

21. Other assets

	31/12/2002	31/12/2001
Overpaid corporate income tax	444,287	-
Property for sale, net	102,744	8,580
Clearing balances related to credit cards	65,793	20,710
Result of foreign exchange spots	27,831	-
Other short-term assets, net	20,041	53,420
Total other assets, net	660,696	82,710

22. 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:

	31/12/2002	31/12/2001
Balances due to the Bank of Latvia	-	650,000
Balances due to credit institutions incorporated in the Republic of Latvia	822,576	-
Balances due to credit institutions incorporated in other countries	37,644	48,489
Balances due to credit institutions incorporated in OECD countries	2,677	224,701
Total balances due to credit institutions and central banks	862,897	923,190

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

	31/12/2002	31/12/2001
Balances repayable on demand	862,897	261,706
Repo transaction	-	650,000
Collateral deposits	-	11,484
Total balances due to credit institutions and central banks	862,897	923,190

23. Deposits from the public

Sector profile	31/12/2002	31/12/2001
Privately held companies	129,391,835	80,410,620
Private individuals	24,033,236	23,449,082
State enterprises	2,282,398	2,217,665
Municipalities	609,855	392,700
Financial institutions	120,556	35
Nonprofit institutions serving private individuals	75,230	24,934
Central governments	4,053	36,982
Total deposits from the public	156,517,163	106,532,018

Geographical profile of customers' residence

Residents	9,955,542	8,341,251
Non-residents	146,561,621	98,190,767
Total deposits from the public	156,517,163	106,532,018

24. Deferred income and accrued expense

	31/12/2002	31/12/2001
Accrued interest expense	207,190	327,933
Other accrued expense	160,789	89,521
Total deferred income and accrued expense	367,979	417,454

25. Provisions for liabilities and charges

	31/12/2002	31/12/2001
Deferred corporate income tax	182,000	31,000
Provision for employee holiday pay	134,739	99,619
Total provisions for liabilities and charges	316,739	130,619

26. Other liabilities

	31/12/2002	31/12/2001
Suspense amounts	72,929	150,421
Tax liabilities	72,045	828,161
Dividends payable	2,750	2,030
Result of foreign exchange spots	-	18,143
Other liabilities	140,868	122,367
Total other liabilities	288,592	1,121,122

Suspense amounts comprise 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.

27. Memorandum items

Contingent liabilities	31/12/2002	31/12/2001
Outstanding guarantees	1,036,679	311,028
Letters of credit	416,076	616,796
Total contingent liabilities	1,452,755	927,824

Financial commitments

Unutilised credit lines	12,545,429	2,749,943
Undrawn credit facilities on settlement cards	1,890,628	1,794,132
Loan commitments	1,367,669	820,853
Commitments for reconstruction of building	2,219,333	-
Total financial commitments	18,023,059	5,364,928
Total contingent liabilities and financial commitments	19,475,814	6,292,752

28. Paid-in share capital

As of 31 December 2002, the issued and registered share capital of the Bank amounted to LVL 10,000,000 (5,000,000). The share capital consists of ordinary shares only. All the shares have a par value of LVL 100 (50) each.

As of 31 December 2002, the Bank had 151 (155) shareholders, including 32 (33) legal entities and 119 (122) private individuals holding the 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 90.72% (50.06%) of the share capital, while the members of the Council hold 4.70% (46.16%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

	31/12/2002		31/12/2001	
	Paid-in share capital	% of total paid-in share capital	Paid-in share capital	% of total paid-in share capital
Oļegs Fiļs	4,581,400	45.81	2,291,700	45.83
Group of related shareholders				
Ernests Bernis	4,478,100	44.78	2,240,050	44.80
Nika Berne	103,000	1.03	-	-
Total for group of related shareholders	4,581,100	45.81	2,240,050	44.80
Total	9,162,500	91.62	4,531,750	90.63

As of 31 December 2002, the Bank owned 30 shares without voting rights assigned to the Board with a par value of LVL 3,000.

29. Related parties

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.

(thous of lats)	31/12/2002		31/12/2001	
	Amount	Terms	Amount	Terms
Loans issued to related parties				
Management	201	4% - 10%	112	8%
Related legal entities	155	8%	234	9% - 12%
Other related private individuals	92	4% - 10%	46	8%
Total loans issued to related parties	448		392	
Loan commitments	49	10%	31	12%
Less provisions for potential credit losses	(3)		(4)	
Net loans and loan commitments	494		419	
Percentage of shareholders' equity, % (see Note 31)	3.19		3.21	

The Bank has also issued guarantees to related parties totalling LVL 11,880 (12,760) for American Express credit cards. The guarantees are secured by deposits.

All related party deposits bear standard interest rates offered by the Bank. As of 31 December 2002, total deposits placed with the Bank by related parties held with the Bank amounted to LVL 188,966 (129,076).

30. Cash and cash equivalents

	31/12/2002	31/12/2001
Cash and demand deposits with the Bank of Latvia	9,453,911	4,949,371
Balances due from credit institutions	64,906,379	48,855,739
Balances due to credit institutions	(862,897)	(917,129)
Total cash and cash equivalents	73,497,393	52,887,981

31. Capital adequacy

The guidelines of the Financial and Capital Market Commission for calculations of capital adequacy bear no material difference from the Basle Committee guidelines. As of 31 December 2002, the capital adequacy ratio calculated in accordance with the Financial and Capital Market Commission's requirements was 18.56% (21.55%).

(thous. of lats)

Tier 1	31/12/2002	31/12/2001
- paid-in share capital	10,000	5,000
- share premium	255	255
- legal and other reserves	1,250	1,250
- retained earnings	1,562	2,888
- own shares	(3)	-
- intangible fixed assets	(310)	-
- current year audited profit (not subject to dividend distribution)	2,748	3,673
Total tier 1	15,502	13,066
Total shareholders' equity	15,502	13,066
Capital charge for credit risk	7,125	5,109
Capital charge for foreign currency risk	85	73
Capital charge for position risk	1,107	852
Capital charge for counter party risk	34	28
Total capital charge for market risks	1,226	953
Total capital charge	8,351	6,062
Capital adequacy ratio (%)	18.56	21.55
Minimum capital adequacy ratio (%)	10.00	10.00

According to the Basle Committee guidelines the minimum capital adequacy ratio is 8%.

The credit risk capital charge is calculated as follows:

(thous. of lats)	Financial and Capital Market Commission requirements		
Assets	31/12/2002	Risk weighting (%)	Weighted assets 31/12/2002
Cash and demand deposits with central banks	9,454	0	-
Balances due from:			
credit institutions incorporated in other countries (secured)	297	0	-
credit institutions incorporated in OECD area	61,285	20	12,257
credit institutions incorporated in other countries	3,166	100	3,166
on demand from Latvian credit institutions	977	20	195
from Latvian credit institutions (except on demand)	890	50	445
Loans and advances to non-banking customers:			
secured by term deposits with credit institution	4,349	0	-
fully secured by a mortgage of residential property registered with Land Register	3,028	50	1,514
other loans	33,106	100	33,106
loans comprising trading portfolio	98	*	-
Debt securities within investment portfolio:			
government debt securities issued in OECD area	1,108	0	-
government debt securities issued in other countries	10,122	100	10,122
Debt securities and shares of trading portfolio	41,723	*	-
Prepayments	39	50	19
Accrued income, 0% risk weighted	28	0	-
Accrued income, 20% risk weighted	30	20	6
Accrued income, 50% risk weighted	15	50	8
Accrued income, 100% risk weighted	375	100	375
Accrued interest income and other assets of trading portfolio	415	*	-
Intangible fixed assets	310	**	-
Fixed assets, investments in associated entities, other shares, derivatives and other assets	4,409	100	4,409
Total assets	175,224		65,622
Memorandum items			
Memorandum items with 100% credit equivalent			
Guarantees secured by deposits	153	0	-
Other guarantees	884	100	884
Irrevocable stand-by letters of credit secured by deposits	47	0	-
Other stand-by letters of credit	37	100	37
Capital expenditure commitments	2,219	100	2,219
Memorandum items with 50% credit equivalent			
Documentary letters of credit secured by deposits	178	0	-
Other documentary letters of credit	36	100	18
Financial commitments			
0% risk weighted	10,763	0	-
50% risk weighted	341	50	85
100% risk weighted	4,700	100	2,350
Memorandum items with 20% credit equivalent			
Documentary letters of credit secured by deposits	31	0	-
Other documentary letters of credit provided against bills of lading or shipment documents	87	100	17
Total memorandum items	19,476		5,610
Foreign currency exchange contracts (1%-1.5%)			
20% risk weighted	7	20	1
100% risk weighted	17	100	17
Interest rate derivatives (2%)	49	*	-
Total	194,773	-	71,250
Total credit risk capital charge			7,125

* 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.

** Deducted from equity

To the shareholders of a/s Aizkraukles banka

We have audited the accompanying financial statements of a/s Aizkraukles banka (hereinafter – the Bank) for the year ending 31 December 2002, set out on pages 21 through 47, which comprise the balance sheet, the statements of income, changes in shareholders' equity and cash flows, and the related notes. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing 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 give a true and fair view of the financial position of a/s Aizkraukles banka as of 31 December 2002, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Ernst & Young Baltic SIA
License No. 17



Neil Jennings

Personal ID code: 240165-14652
Member of the Board



Gundars Ruža

Personal ID code: 310375-10517
Latvian Sworn Auditor
Certificate No. 137

Riga, 28 February 2003

Aizkraukles Banka

23 Elizabetes Str., Riga, LV 1010, Latvia

Client line tel. +371 7775555

Tel.: +371 7775222; fax: +371 7775200

www.ab.lv; e-mail: bank@ab.lv