

**JSC “BALTIC INTERNATIONAL BANK”
FINANCIAL STATEMENTS
DECEMBER 31, 2001**

**JOINT-STOCK COMPANY
“BALTIC INTERNATIONAL BANK”
FINANCIAL STATEMENTS
2001**

**JSC “BALTIC INTERNATIONAL BANK”
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**JSC "BALTIC INTERNATIONAL BANK"
MANAGEMENT REPORT**

Dear Ladies and Gentlemen,

During the accounting year 2001 the JSC "Baltic International Bank" (further in the text "Bank") has continued its development and marked the 8th anniversary of its activities as one of the Latvian banks with its history, traditions and specific approach to engagement and service of new customers.


During the whole period of work in the financial market the Bank has been increasing the volume of its activities. The year 2001 has not been an exception. Thus, the total turnover value (or the volume of all the operation) of the Bank for the accounting year constitutes to 45 billion Lats, i.e. the growth is 112% as compared to the year 2000. The number of clients actively cooperating with the Bank has also grown by 15 % in 2001 as compared to 2000. The intensity of the Bank service usage by the clients has also grown – in 2001 the Bank has executed 28% more payments than in 2000. The number of payments per one client in the accounting year has been increased by 12%, and the growth of "turnover per one client" index made up 85%.

In 2001 the Bank started to emit its "Eurocard/Mastercard" and "Maestro" payment cards to provide the clients with corresponding facilities for the cards issue and their service.

In its activities the Bank continues the policy of conservatism and carefulness as regards attraction of clients and investment of assets. Notes to the financial report present descriptions of the main financial risks run by the Bank, as well as control and minimization methods for these risks. The Management Board and Supervisory Council of the Bank have developed and approved the policy and procedures for management of all risks the essential for the Bank.

Thus, in the accounting year the Bank, among other matters, has paid special attention to strengthening control against credit risks as well as to the matters concerning the anti-money laundering activities to prevent legalization of the money gained in a criminal way. New edition of normative documents has been developed and approved, regulating credit and overdraft arrangement and control procedure. Due to the fact that the second half of the year 2001 in the world has been characterized by the ever growing attention to the money laundering driven by criminal activities, the importance of the banks' counteractions to prevent such money legalization has also drastically increased, and at the end of 2001 the Bank has worked out new procedures regulating the Bank and clients interactions to fight this kind of criminal activities.

We thank our clients and partners for their confidence and successful cooperation, and the Bank staff for their professional and efficient work, and our shareholders for their understanding and support.



Chairman of the Council
Valeri Belokon



Chairperson of the Board
Alla Tkachenko

JSC "BALTIC INTERNATIONAL BANK"
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**SUPERVISORY COUNCIL AND MANAGEMENT BOARD
OF THE JSC "BALTIC INTERNATIONAL BANK"**

Supervisory Council as of December 31, 2001

Name	Position	Date of initial appointment	Date of reelection
Valeri Belokon	Chairman of the Council	19/07/1995	10/01/2001
Vjacheslav Kramnoj	Deputy Chairman of the Council	18/07/1997	10/01/2001
Vadim Pcholkin	Member of the Council	18/07/1997 - 10/01/2001	-
Vjacheslav Kramnoj	Member of the Council	10/01/2001	-

Management Board as of December 31, 2001

Name	Position	Date of initial appointment	Date of reelection
Alla Tkachenko	Chairperson of the Board	30/04/1996	10/01/2001
Oleg Gerasimov	Member of the Board	02/02/1996	10/01/2001
Vilori Belokon	Member of the Board	19/07/1995	10/01/2001
Leonid Kramnoj	Member of the Board	27/05/1999	10/01/2001
Evita Ostrovska	Member of the Board	27/05/1999	10/01/2001
Natalja Tkachenko	Candidate Member of the Board	27/05/1999	10/01/2001

During the current year according to the decision of the shareholders meeting Vadim Pcholkin was dismissed from duties of member of the Council, but Vjacheslav Kramnoj (the son of Vjacheslav) started to work as a member of the Council. These changes occurred in January 10, 2001.

During the current year no more changes in the Council or Board Members were observed.

JSC "BALTIC INTERNATIONAL BANK"
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STATEMENT OF THE JSC "BALTIC INTERNATIONAL BANK"
MANAGEMENT RESPONSIBILITY

Riga

March 10, 2002

On behalf of management of the JSC "Baltic International Bank" (further on "the Bank") the Chairman of the Council Mr. Valeri Belokon and Chairperson of the Board Ms. Alla Tkachenko herewith inform that the financial statements have been prepared in accordance with the acting legislation of the Latvian Republic, and that the financial statements clearly present the Bank's financial state as of the end of the financial year as well as the Bank activities results for the financial year.

The accounting records in the Bank have been kept in compliance with the requirements of the present legislation, and at the same time the Bank management are responsible for the safety of the Bank assets as well as for prevention of fraud and other dishonest activities. The Bank management provides for the compliance of the Bank activities to the requirements of the Law "On Credit Institutions", other laws and legislative regulations, as well as to the directives of the Bank of Latvia and Finance and Capital Markets Commission.

The financial statements for the year 2001 have been prepared on the basis of the corresponding accounting methods applied sequentially, the decisions and the regulations of the Bank management on preparation of the financial statements have been prudent and reasonable. Hereby the Bank management certifies that the International Accounting Standards have been observed and any essential variance from the above is being clarified in the Notes.

On behalf of the Bank Management



Chairman of the Council
Valeri Belokon



Chairperson of the Board
Alla Tkachenko

**JSC "BALTIC INTERNATIONAL BANK"
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**INDEPENDENT AUDITOR'S REPORT
To the shareholders of the JSC "BALTIC INTERNATIONAL BANK"**

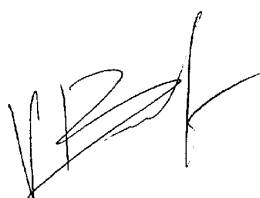
JSC "BALTIC INTERNATIONAL BANK"
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PROFIT AND LOSS ACCOUNT

	Notes	2001 LVL	2000 LVL
Interest income	4	2,074,884	1,488,143
Interest expense	5	<u>(1,249,338)</u>	<u>(532,374)</u>
Net interest income		825,546	955,769
Securities income	6	3,617	688
Fees and commission income	7	528,787	497,398
Fees and commission expense	8	<u>(159,899)</u>	<u>(126,038)</u>
Operating income		1,198,051	1,327,817
Gain from trading in financial instruments	9	98,256	154,188
Other operating income	10	120,863	86,281
Administrative expenses	11	(1,010,437)	(849,951)
Depreciation of fixed assets and intangible assets		(109,604)	(121,650)
Provisions for doubtful debts and off-balance sheet liabilities	17	(352,825)	(234,925)
Release of provisions	12	304,183	14,286
Gain/(loss) from revaluation of long-term investments		<u>51,535</u>	<u>(22,404)</u>
Current year profit before taxes		300,022	353,642
Taxes		<u>-</u>	<u>-</u>
Current year profit after taxes		300,022	353,642

The accompanying notes on pages 12 to 32 form an integral part of the current financial statements.

The financial statements on pages 7 – 32 have been approved by the Management Board on March 1, 2002.



Chairman of the Council
Valeri Belokon



Chairperson of the Board
Alla Tkachenko

JSC "BALTIC INTERNATIONAL BANK"
FINANCIAL STATEMENTS
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BALANCE SHEET AND OFF-BALANCE ITEMS

ASSETS	Notes	2001	2000
		LVL	LVL
Cash and balances with the Central Bank	14	1,298,252	1,291,202
Due from credit institutions	15	10,745,843	15,579,956
<i>on demand</i>		<i>10,266,455</i>	<i>15,120,096</i>
<i>Others</i>		<i>479,388</i>	<i>459,860</i>
Loans to customers	16	6,821,919	4,886,244
Debt securities and other fixed-income securities	18	1,117,971	395,171
<i>government debt securities</i>		<i>381,457</i>	<i>329,286</i>
<i>other debt securities and fixed-income securities</i>		<i>736,514</i>	<i>65,885</i>
Equities and other non-fixed income securities	18	242,993	278,862
Investments in associated companies	19	156,356	156,356
Intangible assets	20	31,977	41,678
Fixed assets	21	1,769,773	1,292,218
Prepayments and accrued income	22	227,173	121,915
Other assets	23	656,500	988,308
Total assets		<u>23,068,757</u>	<u>25,031,910</u>

(to be concluded)

The accompanying notes on pages 12 to 32 form an integral part of the current financial statements.

JSC "BALTIC INTERNATIONAL BANK"
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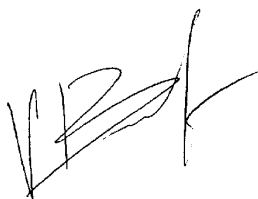
BALANCE SHEET AND OFF-BALANCE ITEMS

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2001	2000
		LVL	LVL
Due to credit institutions	24	116,504	263,950
<i>on demand</i>		<i>116,504</i>	<i>263,950</i>
Customers' deposits	25	18,418,325	21,007,092
<i>on demand</i>		<i>10,242,755</i>	<i>13,833,239</i>
<i>term deposits</i>		<i>8,175,570</i>	<i>7,173,853</i>
Deferred income and accrued expense	26	193,143	164,364
Accrued payments		29,387	23,027
Other liabilities	27	520,004	116,834
Subordinated liabilities	28	1,028,536	993,807
Total liabilities		20,305,899	22,569,074
 Shareholders' equity	 29	 2,762,858	 2,462,836
<i>Share capital</i>		<i>5,874,310</i>	<i>5,874,310</i>
<i>Reserve capital and other reserves</i>		<i>545,024</i>	<i>545,024</i>
<i>Retained losses for the previous accounting periods</i>		<i>(3,956,498)</i>	<i>(4,310,140)</i>
<i>Retained earnings for the current accounting period</i>		<i>300,022</i>	<i>353,642</i>
Total liabilities and shareholders' equity		23,068,757	25,031,910
 OFF-BALANCE ITEMS		 1,607,690	 225,835
Warranties and guarantees	33	95,062	39,845
Commitment to customers		1,512,628	185,990
<i>other commitments</i>		<i>1,512,628</i>	<i>185,990</i>

(conclusion)

The accompanying notes on pages 12 to 32 form an integral part of the current financial statements.

The financial statements on pages 7 – 32 have been approved by the Management Board on March 1, 2002.



Chairman of the Council
Valeri Belokon



Chairperson of the Board
Alla Tkachenko

JSC "BALTIC INTERNATIONAL BANK"
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Paid-in share capital LVL	Reserve capital LVL	Retained losses LVL	TOTAL LVL
Balance as of December 31, 1999	<u>5,874,310</u>	<u>545,024</u>	<u>(4,310,140)</u>	<u>2,109,194</u>
Profit for the current Year	<u>-</u>	<u>-</u>	<u>353,642</u>	<u>353,642</u>
Balance as of December 31, 2000	<u>5,874,310</u>	<u>545,024</u>	<u>(3,956,498)</u>	<u>2,462,836</u>
Profit for the current Year	<u>-</u>	<u>-</u>	<u>300,022</u>	<u>300,022</u>
Balance as of December 31, 2001	<u>5,874,310</u>	<u>545,024</u>	<u>(3,656,476)</u>	<u>2,762,858</u>

The accompanying notes on pages 12 to 32 form an integral part of the current financial statements.

JSC "BALTIC INTERNATIONAL BANK"
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CASH FLOW STATEMENT

	Notes	2001 LVL	2000 LVL
Cash flow from operating activities			
Profit before taxation		300,022	353,642
Depreciation and amortization		109,604	121,650
Increase/(decrease) in provisions		49,265	(1,389,688)
Foreign exchange revaluation (profit)		(94,321)	(128,830)
(Profit)/loss from revaluation of long-term investments		(51,535)	22,404
(Profit)/loss from sale of fixed assets		(978)	3,122
Increase in deferred income and accrued expense		28,779	10,228
(Increase)/decrease in deferred expense and accrued income		(105,258)	9,985
Decrease/(increase) in other assets		315,672	(874,651)
Increase/(decrease) in other liabilities		409,530	(154,253)
Increase/(decrease) in cash and cash equivalents from operating activities before changes in assets and liabilities		<u>960,780</u>	<u>(2,026,391)</u>
(Increase) in short term investments		(684,431)	(250,145)
(Increase) in balances due from credit institutions		(500)	(8,211)
(Increase)/decrease in loans to customers		(1,968,804)	3,018,859
(Decrease)/increase in balances due to credit institutions		(147,446)	195,786
(Decrease)/increase in customers' deposits		(2,588,767)	3,958,905
(Decrease)/increase in cash and cash equivalents from operating activities		<u>(4,429,168)</u>	<u>4,888,803</u>
Cash flow from investing activities			
Purchase of fixed assets		(532,183)	(323,555)
Purchase of intangible assets		-	(41,131)
Proceeds from sales of fixed assets		4,738	4,386
Decrease in cash and cash equivalents from investing activities		<u>(527,445)</u>	<u>(360,300)</u>
Cash flow from financing activities			
Proceeds from subordinated liabilities attraction		34,729	41,647
Increase in cash and cash equivalents from financing activities		<u>34,729</u>	<u>41,467</u>
(Decrease)/increase in cash and cash equivalents		<u>(4,921,884)</u>	<u>4,570,150</u>
Cash and cash equivalents at the beginning of the current period	30	16,858,898	12,159,918
Profit from foreign exchange revaluation	9	94,321	128,830
Cash and cash equivalents at the end of the current period	30	<u>12,031,335</u>	<u>16,858,898</u>

The accompanying notes on pages 12 to 32 form an integral part of the current financial statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The joint-stock company "Baltic International Bank" ("the Bank") was licensed for the bank activities on May 3, 1993, and the same year it started its operations in the bank services market. The main types of the Bank activities are allotting loans to private and legal entities, customers' money transfers, transactions with foreign currencies and securities both for customers and for the Bank's trading purposes.

The main legislative documents regulating the bank activities in the Latvian Republic are the Law "On Credit Institutions", the Law "On money laundering driven by criminal activities prevention of its legalization", as well as other rules and regulations of the Bank of Latvia and Finance and Capital Markets Commission. The Law "On Finance and Capital Markets Commission" was enacted on July 1, 2001, and according to the law all supervisory functions on activities of the finance and capital markets participants have been granted to a new-born institution – the Finance and Capital Markets Commission. Previously these functions were executed by several state institutions, including the Bank of Latvia, Securities Market Commission, Deposits Guarantee Fund, the State Insurance Control Inspection.

The basis for the development of the Bank is servicing the large corporate customers from Latvia or from abroad. When choosing a customer, the Bank observes the principle of precaution, applying certain criteria to the customers. Such approach enables the Bank not only to provide a high service level, but also to practice a personal approach to each customer as well as to minimize the risks of cooperation with unreliable customers. Being an international corporative bank, rendering service not only to the Latvian residents, but to the customers non-residents as well, and having an experience of such activities in many states of the world, the Bank in its activities employs the newest technologies, taking care for their corresponding maintenance.

Since the first day of its existence the Bank has been oriented on reliable and respectable customers. Such orientation has helped the Bank to find and take its specific place in the system of the Latvian commercial banks.

In 2001 the Bank continued to make great efforts to improve the quality of customers' service. A serious software modernization of the "Smart Bank System" and "Remote Banking" systems has been performed. The development of information technologies encourages the improvement of banking facilities and increases the quality of the rendered services, and the qualitative technologies, in their turn, let the Bank ensure an exclusive and competitive service for its customers.

The high professional standard and work experience of the Bank specialists allows regular replenishment of the list of rendered services with a new kind of financial banking products. In 2001 the Bank offered the following banking services to its customers:

- (a) cell rent in the Bank depositary,
- (b) issue and service of the international "Eurocard/Mastercard" and "Maestro" payment cards.

2. ACCOUNTING AND EVALUATION PRINCIPLES

General accounting principles

The general Bank accounting principles are stated by the Bank Accounting Policy regulating the basis of accounting, principles of the Bank transactions accounting as well as methods of evaluation and preparing financial statements. The Bank accounting as well as calculation and payments of taxes are carried out in accordance with the legislation of the Latvian Republic.

The Bank financial statements have been prepared using the Bank assets and liabilities recognition method under the historical cost convention according to the International Accounting Standards and directions of the Bank of Latvia and Finance and Capital Markets Commission.

Foreign currency translation

The currency unit of the Republic of Latvia – Lat – is being used as a monetary unit in the financial statements of the Bank (LVL). All assets and liabilities and off-balance sheet claims and liabilities in foreign currencies are revalued into Lats according to the Bank of Latvia currency exchange rates at the end of the accounting period. The result relating to the foreign currency exchange rates fluctuations is included in the profit and loss account for the period.

The foreign currency exchange rates for the principal currencies which were used at the end of the accounting period:

Currency		The Bank of Latvia exchange rate as of December 31, 2001	The Bank of Latvia exchange rate as of December 31, 2000
1 EUR	=	LVL 0.560856	LVL 0.570042
1 GBP	=	LVL 0.924000	LVL 0.917000
1 BYR	=	LVL 0.000399	LVL 0.000506
1 RUB	=	LVL 0.021100	LVL 0.021600
1 UAH	=	LVL 0.121000	LVL 0.113000
1 USD	=	LVL 0.638000	LVL 0.613000

Income and expense recognition

All material income and expense, including interest income and interest expense are recognized on an accrual basis. Accrued interest income is calculated on loans included in a standard and watch lists. Income from commissions received from customers is included in the income the day when the transaction took place, unless it is stated otherwise in the agreement with the customer. Income and expense, excluding income on unprofitable assets, relating to the accounting period, are recognized in the profit and losses account regardless of the date of receipt or payment.

Investments

Investments of the Bank contain securities, purchased by the Bank both for investment and speculation purposes, of Latvian and foreign issuers, including long-term and short-term securities, fixed-income securities and non-fixed-income securities. Speculative securities are purchased with the aim to resell them within short period of time and gain profit from the change of the price. Investment securities are purchased with the aim to receive constant long-term profit in the form of dividends or interest and are included in the balance until the term of repayment.

(a) Securities, purchased in trading purposes (trading securities)

Trading securities are initially recognized at cost (which includes transaction costs) and subsequently re-measured to fair value based on market values. All related realized and unrealized gains and losses are included in net trading income. Trading securities are accounted for using the settlement date basis for both purchases and sales.

(b) Securities, available for sale (available-for-sale investments)

Available-for-sale investments (shares, long-term investments in share capital) are initially recognized at cost (which includes transaction costs) and subsequently re-measured to fair value based on market value. When equity securities are not traded in active markets, the Bank uses alternative methods to determine fair value.

(c) Securities, purchased in investment purposes (held-to-maturity securities)

Short-term government bonds are recognized at amortized cost. The carrying value is based on the purchase value adjusted for discounts or premiums. The straight-line method is used for amortizing discounts over the term of securities and does not result in material differences as compared to amortization according to the effective interest method. Held-to-maturity securities are accounted for using a settlement date basis for purchases.

Financial transactions

Derivatives entitle one party to contractual rights to change the financial asset with the other party on potentially profitable conditions. Some instruments contain both the rights and liabilities for carrying out the change.

(a) Derivatives

In the normal course of business, the Bank is a party to foreign currency swap contracts. Gains or losses resulting from changes in rates of exchange subsequent to the date of the transaction are recognized in the profit and loss account as a profit or loss from revaluation of foreign currency positions. The Bank is involved in the transactions with options as well. Options are accounted taking into consideration the market prices and quoting of international brokerage companies. Options premium paid at current value is recognized in the balance sheet.

(b) Other off-balance sheet instruments

In the ordinary course of business, the Bank has been involved in off-balance sheet financial instruments consisting of commitments to extend loans, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements upon the conclusion of the respective agreements. Due to the fact that such kind of off-balance sheet liabilities are subjected to various degrees of off-balance sheet risks, in the financial statements they are included both in calculation of capital adequacy and analysis of liquidity risk as well as currency risk analysis.

Loans and special provisions

Loans in financial statements are recorded at net value, i.e. issued and unpaid principal amounts of loans, excluding special accruals for bad and doubtful debts. Amount of the provisions for bad and doubtful debts is monthly reviewed and corrected by the Committee for evaluation of assets and off-balance sheet liabilities, based on the risk evaluation of each loan and in accordance with the Credit policy of the Bank.

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If the loan has been recognized as lost with the decision of the Committee for evaluation of assets and off-balance sheet liabilities, provisions are excluded from the provisions account and the loan is written-off. Repayment of the loans written-off earlier is recorded in the profit and loss account as a profit in the period, when it has been repaid.

The Bank creates general provisions to reflect potential risk existing in the current loan portfolio on loans issued to non-residents. In 2001 general provisions were released.

The book value of loans does not substantially differ from the value, calculated by as discounting future cash flow, using the discount factor of market interest rate. This difference is not substantial, since, with increasing of the long-term loans granted by the Bank, changeable interest rate is applied. In its turn the interest rates of loans with fixed rate are reviewed once a year.

Fixed assets and depreciation

All fixed assets are recorded in the financial statements of the Bank at cost less accumulated depreciation. Fixed assets, with the purchase prices under 50 Lats are written off at the moment of their purchase. Fixed assets purchased for foreign currency are recognized in Lats according to the exchange rate, established by the Bank of Latvia as of the day they are actually received. Depreciation (amortization) of the fixed assets is the amount, which by means of straight-line method, in equal parts is included in the profit and loss account in the form of expenses beginning from the moment of starting using the fixed asset until the end of the term of its useful exploitation. Choice of the straight-line method is substantiated by an assumption that validity of the fixed assets is constantly decreasing in time.

Annual rates of depreciation of fixed assets of the Bank are the following:

Buildings	2%
Technological equipment	20%
Vehicles	20%
Other fixed assets	10%
Computers	20%

Depreciation is not calculated on unfinished buildings and land. Expenses of maintenance and current repairs of fixed assets are included in the profit and loss account as of the moment of their occurrence. Expenses for general overhaul of the fixed assets owned by the Bank are added to the respective asset in the balance sheet, expenses for general overhaul of rented fixed assets are reflected in the balance sheet account "Deferred expenses" and in equal parts are written off, taking into account the term of rent of the respective fixed asset.

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities reflects the amount of financial resources, for which an asset might have been sold or liabilities might have been repaid in a short period of time. The initial evaluation of financial assets and financial liabilities of the Bank is carried out at fair value of the included asset and received liability for its repayment, including the transaction costs. The subsequent evaluation of financial assets and liabilities in the balance sheet of the Bank is carried out at depreciated cost, excluding the trading assets and liabilities and derivatives. The fair value of a financial asset and financial liability is established by means of evaluation method. The evaluation method is based on the initial data of the market, interest rates, norm of determined losses for granted loans, and coefficient of discounting. The fair value is based on the intent of further activity of the Bank in certain financial assets and financial liabilities, taking into account its current financial position. The trading portfolio, consisting of the securities of the Bank, is evaluated at fair value, which is based on published quoting on the active market.

Money in transit

At the end of the accounting period "Money in transit" is included in the balance sheet in the corresponding accounts of customers and banks.

Cash and cash equivalents

Cash and cash equivalents include cash, claims on demand from the Bank of Latvia and other credit institutions, as well as claims from other credit institutions with the remaining term of settlement not exceeding three months.

Corporate income tax

Corporate income tax in the Republic of Latvia is a direct tax on business income and is paid from the profit gained at 25%. This tax rate was changed by the Government of Latvia in 2001, and beginning from year 2002 it is 22%. Deferred tax liabilities or claims arise to Bank in the result of short-term differences, connected with non-simultaneous recognition of income and expense in the financial statements and tax declaration prepared by the Bank. Deferred taxes apply to the probable future tax claims and liabilities for all transactions and events, recognized in the financial statements or tax declaration of the Bank. Basic short-term differences arise because of differences between the depreciation rates of fixed assets, used for financial accounting and for tax purposes, and general accruals for bad debts and other expenses.

Adoption of new International Accounting Standards

In the current year the Bank has adopted IAS 39 – *Financial instruments: Recognition and Measurement (Revised 1998)* for the first time. Revisions in a number of other IAS took effect in 2001. Those revisions concerned matters of detailed application which have no significant effect on amounts reported for the current or prior accounting periods.

IAS 39 has introduced a comprehensive framework for accounting for all financial instruments. The Bank's detailed accounting policies in respect of such instruments are listed above. The principal effect of the adoption of IAS 39 has been that derivative financial instruments have been brought on-balance sheet. The Bank has determined that the effects of adoption of IAS 39 are not significant to the Bank's current year operations or the position of the Bank as of December 31, 2001 and 2000.

3. RISK MANAGEMENT

The strategy and policies of activity of the Bank are based on a thorough evaluation and forecasting of various situations in the financial markets, analysis of all factors, determining banking risks, therefore one of the most important tasks of the Bank is minimization of risks. Because of the high level of risk of loss from transactions with financial instruments, subjected to various forms of risk, in the financial statements the Bank disclose the information about the accounting policy, adopted for recognition and recording of financial instruments, as well as the methods of their evaluation. The Bank establishes restrictions for risk transactions with the aim to decrease eventual losses in case of incomplete or delayed repay of money invested in risk transactions. Risk management policies, connected with financial instruments, excluding unnecessary concentration of risks and requesting a collateral for minimizing of the credit risk, ensure reliability and profitability of the Bank.

The Council and Board of the Bank have adopted the management policies of main banking risks, like credit risk, liquidity risk, foreign currency exchange risk, trading risk. The aforementioned policies establish restrictions for risky transactions and control procedures for minimizing of risks in all aspects of the activity of the Bank. Board of the Bank, as well as specially formed intra-bank structures – Credit Committee and Resources Supervision Committee – regularly control that all requirements of intra-bank documents, regulating banking risks all properly followed, as well as providing continuous improvement of the system of risk management, taking into account constant development of the structure of the financial instruments and transactions.

Credit risk

The Bank has established internal restrictions for various deals and transactions with the aim to minimize the credit risk, such as limits for the transaction amount with one borrower, depending on the type of the borrower, form and amount of collateral, as well as other criteria, limits on the amounts of investing the financial resources in one bank depending on the results of the analysis of its financial condition, country of registration and activity, currency of the transaction and other parameters, limits on transactions with securities depending on the form of the securities, type of the portfolio, country of the issuer and other limits. All the aforesaid restrictions are determined by the intra-bank policies and regulations and are controlled by adequate structures of the Bank – Resources Supervision Committee, Credit Committee and the Board of the Bank. The procedures of monitoring, analysis and supervision of credit risks established by the Bank by means of complying with certain policies and regulations ensure multi-stage system of control at entering into any transactions concerning investing of resources. Board of the Bank regularly analyses and evaluates both the work of the committees of the Bank and the respective internal structural units, responsible for the transactions of investing of the resources of the Bank.

Liquidity risk

The Bank carries out liquidity risk management in compliance with the Liquidity management policy of the Bank, adopted by the Council and Board of the Bank, and determining general mismatch limits depending on the term. The Resources Supervision Committee is a structure responsible for the control that all requirements of the said policy are properly followed in the activity of the Bank, according to the policy, determine adequate liquidity mismatch sub-limits, maximal amount of deposits, attracted from one customer, other restrictions, as well as ensure control of said limits and compliance with the procedures. Liquidity risk management is carried out by means of observance of the restrictions established by the Bank by means of co-ordination of the terms of repaying of invested assets and deposits attracted by the Bank. For maintaining the necessary level of liquidity the Resources Supervision Committee monthly forecasts the possibility of outflow of deposits, as well as "unreliable" deposits, increase of demand for crediting from the clients and changes of the economic situation. The Liquidity management policy of the Bank requires also the necessary measures, which should be taken in case of occurrence of critical situation with the liquidity of the Bank.

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**MATURITY ANALYSIS OF ASSETS AND LIABILITIES
as of December 31, 2001**

	On demand	Up to 3 months	From 3 months To 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over	TOTAL
							LVL
ASSETS							
Cash	291,267	-	-	-	-	-	291,267
Balances with the Central Bank	1,006,985	-	-	-	-	-	1,006,985
Due from credit institutions	10,266,455	466,628	-	-	12,760	-	10,745,843
Loans to customers	27,933	1,652,344	145,875	206,710	4,519,326	269,731	6,821,919
Investments in securities:	-	169,793	32,543	624,875	52,400	481,353	1,360,964
<i>Government debt securities</i>	-	-	-	359,302	12,717	9,438	381,457
<i>Other debt securities and fixed income securities</i>	-	169,793	32,543	265,573	39,683	228,922	736,514
<i>Equities and other non- fixed income securities</i>	-	-	-	-	-	242,993	242,993
Investments in associated companies	-	-	-	-	-	156,356	156,356
Fixed and intangible assets	-	-	-	-	-	1,801,750	1,801,750
Prepayments and accrued income	18,197	103,557	12,461	17,162	72,344	3,452	227,173
Other assets	459,545	509	99,838	-	-	96,608	656,500
Total assets	12,070,382	2,392,831	290,717	848,747	4,656,830	2,809,250	23,068,757
LIABILITIES							
Due to credit institutions	116,504	-	-	-	-	-	116,504
Customers' deposits	10,243,929	5,425,786	1,605,643	407,969	734,322	676	18,418,325
Deferred income and accrued expense	44,117	125,767	1,290	11,802	10,167	-	193,143
Accrued payments	29,387	-	-	-	-	-	29,387
Other liabilities	520,004	-	-	-	-	-	520,004
Subordinated liabilities	-	-	-	-	-	1,028,536	1,028,536
Total liabilities	10,953,941	5,551,553	1,606,933	419,771	744,489	1,029,212	20,305,899
Off-balance sheet items	1,607,690	-	-	-	-	-	1,607,690
Maturity gap	(491,249)	(3,158,722)	(1,316,216)	428,976	3,912,341	1,780,038	1,155,168
Maturity gap total	(491,249)	(3,649,971)	(4,966,187)	(4,537,211)	(624,870)	1,155,168	

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Foreign exchange risk

Assets of the Bank are denominated both in national and foreign currencies. In order to manage foreign exchange risk the Bank has worked out adequate internal regulating documents, requiring the control of changes in currency exchange rates. The main document, requiring the control of changes in currency exchange rates in the Bank is the Policy of foreign exchange risk management. The Resources Supervision Committee is responsible for compliance with the requirements of the said policy, establishing certain restrictions both on currency exchange transactions of the Bank and open currency positions.

The main volume of the transactions of the Bank is carried out in Lats, US dollars, as well as Euro. Due to the fact that the largest part of currency exchange transactions of the Bank are carried out either with the aim of maintaining the liquidity or for the clients of the Bank, the share of financial instruments in the total amount of currency exchange transactions of the Bank is insignificant. As a rule the Bank carries out purchase and sale of foreign currency on the financial market by entering into spot transactions. The Bank also operates on the market of swap transactions. According to the customers orders the Bank enters into speculative marginal transactions as well.

**CURRENCY ANALYSIS OF ASSETS AND LIABILITIES
as of December 31, 2001**

	LVL	USD	EUR	Other	TOTAL LVL
ASSETS					
Cash and balances with the Central Bank	1,055,163	156,942	-	86,147	1,298,252
Due from credit institutions	657	8,418,717	566,954	1,759,515	10,745,843
<i>On demand</i>	657	8,338,329	566,954	1,360,515	10,266,455
<i>other</i>	-	80,388	-	399,000	479,388
Loans to customers	1,343,019	5,454,600	24,300	-	6,821,919
Debt and other fixed-income securities	-	1,117,971	-	-	1,117,971
<i>government debts securities</i>	-	381,457	-	-	381,457
<i>other debt securities and fixed-income securities</i>	-	736,514	-	-	736,514
Equities and other non-fixed income securities	84,945	158,048	-	-	242,993
Investments in associated companies	156,356	-	-	-	156,356
Intangible assets	31,977	-	-	-	31,977
Fixed assets	1,769,773	-	-	-	1,769,773
Prepayments and accrued income	43,483	139,554	255	43,881	227,173
Other assets	212,432	443,873	195	-	656,500
Total assets	4,697,805	15,889,705	591,704	1,889,543	23,068,757
LIABILITIES AND SHAREHOLDER'S EQUITY					
Due to credit institutions	4,401	109,354	2,749	-	116,504
<i>on demand</i>	4,401	109,354	2,749	-	116,504
Customers' deposits	1,888,312	14,464,430	346,386	1,719,197	18,418,325
<i>on demand</i>	881,660	8,525,155	203,220	632,720	10,242,755
<i>other</i>	1,006,652	5,939,275	143,166	1,086,477	8,175,570
Deferred income and accrued expense	46,475	102,924	3,388	40,356	193,143
Accrued payments	29,387	-	-	-	29,387
Other liabilities	251,678	242,864	3,329	22,133	520,004
Subordinated liabilities	142,251	886,285	-	-	1,028,536
Shareholder's equity	2,762,858	-	-	-	2,762,858
<i>Share capital</i>	5,874,310	-	-	-	5,874,310
<i>Reserve capital and other reserves</i>	545,024	-	-	-	545,024
<i>Retained losses for the previous accounting periods</i>	(3,956,498)	-	-	-	(3,956,498)
<i>Retained earnings for the current accounting period</i>	300,022	-	-	-	300,022
Total liabilities and shareholders' equity	5,125,362	15,805,857	355,852	1,781,686	23,068,757
OFF-BALANCE SHEET ITEMS					
Warranties and guarantees	33,863	1,573,827	-	-	1,607,690
Commitments to customers	-	95,062	-	-	95,062
	33,863	1,478,765	-	-	1,512,628

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Interest rate risk

One of the Bank's interest rate risk management methods is the possibility of credit rate revision according to the terms and conditions of a loan contract depending on the changes in the market rate by the Bank's initiative. In order to manage this kind of risk Bank regularly analyses and monitors interest income and expense in accordance with corresponding assets and liabilities. The Resources Supervision Committee has the right to determine limits on the loan and overdraft interest rates, as well as on the deposit and current account balances interest rate. Board of the Bank regularly reviews interest rates, determined by the Bank, taking into account the Bank's present situation analysis and prognosis of the rates increase and decrease in corresponding terms and in corresponding currency.

	The average monthly balance	Interest	2001 The average interest rate	The average monthly balance	Interest	2000 The average interest rate
	LVL	LVL	%	LVL	LVL	%
ASSETS						
Cash and balances with the Central Bank	1,242,163	-	0%	1,237,900	-	0%
Due from credit institutions	10,553,907	1,067,360	10%	11,524,909	626,406	5%
<i>on demand</i>	9,601,207	288,311	3%	11,073,596	589,888	5%
<i>Other</i>	952,700	779,049	82%	451,313	36,518	8%
Loans to customers	9,112,489	950,877	10%	8,753,197	833,109	10%
<i>Loans (gross)</i>	9,629,463	950,877	10%	10,713,805	833,109	8%
<i>Special provisions for bad and doubtful debts</i>	(516,974)	-	-	(1,960,608)	-	-
Debt and other fixed-income securities	1,083,811	56,647	5%	225,479	28,628	13%
(a) TOTAL ASSETS	21,992,370	2,074,884	9%	21,741,485	1,488,143	7%
LIABILITIES						
Due to credit institutions	392,823	25,689	7%	142,349	1,122	1%
<i>on demand</i>	206,796	-	0%	133,807	-	0%
<i>Other</i>	186,027	25,689	14%	8,542	1,122	13%
Customers' deposits	22,048,243	1,183,447	5%	20,613,209	497,042	2%
<i>on demand</i>	15,033,066	184,026	1%	16,332,648	241,320	1%
<i>Other</i>	7,015,177	999,421	14%	4,280,561	255,722	6%
Subordinated liabilities	1,014,517	40,202	4%	984,531	34,210	3%
(b) TOTAL LIABILITIES	23,455,583	1,249,338	5%	21,740,089	532,374	3%
Shareholders' equity	5,874,310	-	0%	5,874,310	-	0%
(c) TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	29,329,893	1,249,338	4%	27,614,399	532,374	2%
Net interest income	-	825,546	-	-	955,769	-
Interest spread % (a)-(b)	-	-	4%	-	-	4%
Investment spread % (a)-(c)	-	-	5%	-	-	5%

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Trade risk

In spite of relatively small volume of trade transactions, that are concluded by the Bank, it pays much attention for this kind of risk control and analysis. Series of standard documents for the trade risk control are worked out by the Bank. The basic document is Bank's Trading portfolio policy. The Resources Supervision Committee must monitor Bank's trading risk and observe requirements of this policy and other internal policies and procedures, as regards control of operations with securities, control of transactions of a large risk, control of margin currency transactions.

Operational risk

Operational risk is Bank's loss that could be arisen from errors of a personnel, vulnerable software, unforeseen circumstances, contingent fire or other similar factors. In order to prevent this kind of loss, the Bank has developed series of internal regulatory documents – internal by-law, fire-safe rules, technical system safe rules, information classification rules and others procedures. The Board has appointed the persons responsible for the control that all requirements of all above-mentioned internal documents are properly followed.

4. INTEREST INCOME

	2001	2000
	LVL	LVL
Due from credit institutions	1,067,360	626,406
Loans to customers	950,353	833,109
Fixed income securities	56,647	28,628
Settlement cards	524	-
	<u>2,074,884</u>	<u>1,488,143</u>

5. INTEREST EXPENSE

	2001	2000
	LVL	LVL
Liabilities to credit institutions	25,689	1,122
Current and deposit accounts	1,183,447	497,042
Subordinated liabilities	40,202	34,210
	<u>1,249,338</u>	<u>532,374</u>

6. GAIN FROM SECURITIES

	2001	2000
	LVL	LVL
Dividends	3,617	688
	<u>3,617</u>	<u>688</u>

7. FEES AND COMMISSION INCOME

	2001	2000
	LVL	LVL
Guarantees	1,443	651
Cash operations	15,327	16,532
Money transfers	494,690	466,285
Letters of credit	5,930	10,007
Trust management services	4,167	3,923
Settlement cards	7,217	-
Other	13	-
	<u>528,787</u>	<u>497,398</u>

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8. FEES AND COMMISSION EXPENSE

	2001	2000
	LVL	LVL
Services of the correspondent banks	136,400	116,469
Transactions with securities	19,096	6,336
Settlement cards	2,251	-
Other	2,152	3,233
	<u>159,899</u>	<u>126,038</u>

9. NET RESULT FROM TRADING IN FINANCIAL INSTRUMENTS

	2001	2000
	LVL	LVL
Profit on dealing in foreign exchange	77,027	57,133
Gain from foreign currency revaluation	94,321	128,830
Loss on dealing in financial instruments	(48,608)	(726)
Loss from financial assets revaluation	(24,486)	(31,049)
Gain on dealing in precious metal	2	-
	<u>98,256</u>	<u>154,188</u>

10. OTHER OPERATING INCOME

	2001	2000
	LVL	LVL
Sale of fixed assets	978	1,836
Rent of premises	112,416	9,775
Penalties	299	38,932
Refund of taxes	23	35,678
Other	7,147	60
	<u>120,863</u>	<u>86,281</u>

11. ADMINISTRATIVE EXPENSES

	2001	2000
	LVL	LVL
Remuneration to the Council and Board	8,482	6,167
Remuneration to the staff	246,281	191,675
Social tax expense	66,281	53,348
Stationery and miscellaneous	37,371	23,369
Professional services	160,079	143,758
Advertisement	10,220	13,073
Business trips	22,680	30,863
Communication	137,735	137,956
Transport	32,934	36,447
Fixed assets servicing and repair	5,367	5,063
Premises repair and maintenance	52,957	72,443
Security	11,608	8,290
Representation expenses	36,787	1,822
Land leasing	5,541	10,835
Penalties	31,860	61,560
Taxes	15,918	13,942
Other	128,336	39,340
	<u>1,010,437</u>	<u>849,951</u>

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12. RELEASE OF PROVISIONS

	2001	2000
	LVL	LVL
Release of provisions	303,560	14,286
Return of debts written-off	623	-
	<u>304,183</u>	<u>14,286</u>

13. TAXES

	2001	2000
	LVL	LVL
Land and property taxes	15,919	13,942

Reconciliation between effective income tax rate expense and actual corporate tax expense

	2001	2000
	LVL	LVL
Profit/loss before taxation	315,941	367,584
Accrued theoretical provided expenses for corporate income tax (25%)	78,985	91,896

Tax effect of:

Tax non-deductible expenses	(34,776)	(9,760)
Unrecognized assets for deferred tax	(44,209)	(101,656)
Tax charge	<u>-</u>	<u>-</u>

	2001	2000
	Tax effect	Tax effect
	22%	25%
	LVL	LVL
Temporary differences in amortization of fundamental/fixed assets	(149,265)	(128,709)
Temporary differences on tax losses brought forward	502,066	614,740
Temporary differences in provisions added	-	37,500
Deferred taxes	<u>352,801</u>	<u>523,531</u>

Like previous years, in 1999 the Bank had losses. Latvian legislation allows covering these losses with the Bank income during next five years. The term for covering the accumulated expenses is the following:

	Volume of losses	Year of cancellation
	LVL	
Loss which arose in 1998	-	2003
Loss which arose in 1999	2,282,120	2004
	<u>2,282,120</u>	

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14. CASH AND BALANCES WITH THE CENTRAL BANK

	2001	2000
	LVL	LVL
Cash	291,267	259,035
Balance with the Central Bank	1,006,985	1,032,167
	<u>1,298,252</u>	<u>1,291,202</u>

15. DUE FROM CREDIT INSTITUTIONS

	2001	2000
	LVL	LVL
Credit institutions registered in Latvian Republic	83,813	430,458
Credit institutions registered in OECD countries	8,778,265	11,316,500
Credit institutions of the other countries	1,883,765	3,832,998
	<u>10,745,843</u>	<u>15,579,956</u>

16. LOANS TO CUSTOMERS

(a) Loans by type

	2001	2000
	LVL	LVL
Overdrafts	718,990	2,804,128
Commercial loans	3,657,304	1,532,778
Industrial loans	77,253	164,696
Financial leasing	123,193	102,427
Settlement cards	8,937	-
Consumer loans	41,150	50,881
Mortgage loans	1,710,553	642,702
Other	1,046,595	106,353
	<u>7,383,975</u>	<u>5,403,965</u>
General provisions	-	(150,000)
Specific provisions	(562,056)	(367,721)
	<u>6,821,919</u>	<u>4,886,244</u>

(b) Geographical segmentation of loans

	2001	2000
	LVL	LVL
Loans to the residents of Latvia	6,285,305	3,319,508
Loans to the residents of OECD countries	1,034,530	1,900,557
Loans to the residents of other countries	64,140	183,900
	<u>7,383,975</u>	<u>5,403,965</u>
General provisions	-	(150,000)
Specific provisions	(562,056)	(367,721)
	<u>(6,821,919)</u>	<u>(4,886,244)</u>

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(c) Loans by client group	2001	2000
	LVL	LVL
Loans to state owned companies and municipal authorities	12,968	10,616
Loans to private companies	6,307,563	4,896,846
Loans to private persons	927,594	416,263
Loans to Board and staff	135,850	80,240
	<u>7,383,975</u>	<u>5,403,965</u>
General provisions	-	(150,000)
Specific provisions	(562,056)	(367,721)
	<u>6,821,919</u>	<u>4,886,244</u>
(d) Loans by initial term	2001	2000
	LVL	LVL
Within 1 month (including)	727,926	2,804,128
From 3 months to 6 months	956,622	-
From 6 months to 1 year	119,631	7,132
More than 1 year	5,579,796	2,592,705
	<u>7,383,975</u>	<u>5,403,965</u>
General provisions	-	(150,000)
Specific provisions	(562,056)	(367,721)
	<u>6,821,919</u>	<u>4,886,244</u>

17. ANALYSIS OF CHANGES IN PROVISIONS

	Loans	Other assets	Accrued income	Total
	LVL	LVL	LVL	LVL
Provisions as of December 31, 2000	517,721	984	2,682	521,387
Write-off	-	(997)	-	(997)
Increase in special provisions	336,689	10,471	5,665	352,825
Released from special provisions	(153,560)	-	-	(153,560)
Released from general provisions	(150,000)	-	-	(150,000)
Correction	11,206	13	109	11,328
Provisions as of December 31, 2001	<u>562,056</u>	<u>10,471</u>	<u>8,456</u>	<u>580,983</u>

18. INVESTMENTS IN SECURITIES

18.1 Debt securities and other fixed-income securities

	2001	2000
	LVL	LVL
Government treasury bills of Lithuania	156,111	149,993
Government treasury bills issued by OECD countries	225,346	179,293
Others issuers' bonds and other debentures	736,514	65,885
	<u>1,117,971</u>	<u>395,171</u>

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18.2. Equity and non-fixed income securities

	2001	2000
	LVL	LVL
Investments in shares traded at the Riga Stock Exchange	47,445	41,410
Riga Stock Exchange shares	37,500	35,000
Shares of the US state owned companies	4,175	3,569
Shares of the US private companies	152,017	198,883
Other investment	1,856	-
	<u>242,993</u>	<u>278,862</u>

18.3 Total investments in securities classification in accordance with IAS 39

	2001	2000
	LVL	LVL
Held-to-maturity securities	312,467	306,349
Available-for-sale securities	84,945	76,410
Trading securities	1,119,908	447,630
	<u>1,517,320</u>	<u>803,389</u>

19. INVESTMENTS IN ASSOCIATED COMPANIES

Company	Share in equity	2001	2000
	%	LVL	LVL
"Ribeksins Baltija B" Private Limited		29,245	29,245
Company	35.00 %		
JSC "Capital"	31.16 %	127,111	127,111
		<u>156,356</u>	<u>156,356</u>

20. INTANGIBLE ASSETS

	LVL
Historical cost	
As of December 31, 1999	3,488
Additions	41,131
As of December 31, 2000	44,579
Additions	-
As of December 31, 2001	<u>44,579</u>
Amortization	
As of December 31, 1999	(373)
Amortization	(2,528)
As of December, 31 2000	(2,901)
Amortization	(9,701)
As of December 31, 2001	<u>(12,602)</u>
Net book value	
As of December 31, 2000	<u>41,678</u>
As of December 31, 2001	<u>31,977</u>

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21. FIXED ASSETS

	Land and Buildings LVL	Vehicles LVL	Office machinery LVL	Total LVL
Historical cost				
As of December 31, 1999	759,365	150,253	583,920	1,493,538
Additions	238,195	13,427	71,933	323,555
Disposals	-	(99,847)	(111,026)	(210,873)
Historical cost				
As of December 31, 2000	997,560	63,833	544,827	1,606,220
Additions	312,379	9,965	258,873	581,217
Disposals	-	(32,478)	(61,030)	(93,508)
As of December 31, 2001	<u>1,309,939</u>	<u>41,320</u>	<u>742,670</u>	<u>2,093,929</u>
Depreciation				
As of December 31, 1999	(820)	(109,704)	(287,721)	(398,245)
Depreciation	(16,878)	(19,911)	(82,333)	(119,122)
Disposals	-	92,462	110,903	203,365
Depreciation				
As of December 31, 2000	(17,698)	(37,153)	(259,151)	(314,002)
Depreciation	(5,179)	(11,426)	(83,298)	(99,903)
Disposals	-	28,718	61,031	89,749
As of December 31, 2001	<u>(22,877)</u>	<u>(19,861)</u>	<u>(281,418)</u>	<u>(324,156)</u>
Net book value				
As of December 31, 2000	<u>979,862</u>	<u>26,680</u>	<u>285,676</u>	<u>1,292,218</u>
As of December 31, 2001	<u>1,287,062</u>	<u>21,459</u>	<u>461,252</u>	<u>1,769,773</u>

22. PREPAYMENTS AND ACCRUED INCOME

	2001 LVL	2000 LVL
Prepayments	134,267	47,676
Accrued interest on loans	18,844	17,684
Accrued interest on loans to banks	53,071	53,311
Accrued interest on securities	20,980	5,926
Other accrued interest	8,467	-
Specific provisions	(8,456)	(2,682)
	<u>227,173</u>	<u>121,915</u>

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23. OTHER ASSETS

	2001	2000
	LVL	LVL
Unidentified money outflow from correspondent accounts	7,315	-
Prepayments of taxes	21	21
Precious metals	26,164	39,384
Due from brokers	113,948	772,784
Money placed with guarantee funds	286,691	164,561
Other prepayments	46,519	-
Spot transactions*	95,195	-
Other debtors	91,118	12,542
Special provisions	(10,471)	(984)
	<u>656,500</u>	<u>988,308</u>

***Spot transaction net value**

	2001	2000
	LVL	LVL
Spot transactions – claims	23,932,790	-
Spot transactions – liabilities	23,837,595	-
	<u>95,195</u>	<u>-</u>

24. DUE TO CREDIT INSTITUTIONS

	2001	2000
	LVL	LVL
Due to credit institutions, registered at Latvian Republic	-	103
Due to credit institutions, registered at OECD countries	-	8
Due to credit institutions of the other countries	116,504	263,839
	<u>116,504</u>	<u>263,950</u>

25. CUSTOMERS' DEPOSITS

	2001	2000
	LVL	LVL
Current accounts		
State owned companies	102,325	90,584
Private companies	9,853,673	13,726,968
Individuals	280,024	14,299
Public organizations	6,733	1,388
	<u>10,242,755</u>	<u>13,833,239</u>
Fixed-term deposits		
State owned companies	-	400,000
Private companies	6,912,542	6,180,504
Individuals	1,263,028	593,349
	<u>8,175,570</u>	<u>7,173,853</u>
Total customers' deposits	<u>18,418,325</u>	<u>21,007,092</u>

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26. DEFERRED INCOME AND ACCRUED EXPENSE

	2001	2000
	LVL	LVL
Deferred income	9,082	-
Accrued interest payable	165,409	144,562
Other accrued expense	18,652	19,802
	193,143	164,364

27. OTHER LIABILITIES

	2001	2000
	LVL	LVL
Unidentified money inflow to correspondent accounts	245,757	56,861
Spot transactions*	93,545	-
Other creditors	180,702	59,973
	520,004	116,834

***Spot transaction net value**

	2001	2000
	LVL	LVL
Spot transactions – claims	23,878,347	-
Spot transactions – liabilities	23,971,892	-
	93,545	-

28. SUBORDINATED LIABILITIES

Subordinated liabilities of the Bank mostly consist of the Bank shareholder's deposits. Subordinated liabilities differ from ordinary customer's deposits with the fact that its initial term of maturity is not less than seven years and it can be repaid before maturity only in case the Bank is bankrupted and after other creditors claims satisfaction but before shareholders claims satisfaction. In 2001 the Bank has attracted no subordinated liabilities and as of December 31, 2001 the amount of such liabilities made up LVL 1,028,536.

29. SHARE AND RESERVE CAPITAL

	2001		2000	
	Quantity	LVL	Quantity	LVL
Ordinary shares with voting rights	1,174,857	5,874,285	1,174,857	5,874,285
Ordinary shares without voting rights	5	25	5	25
	1,174,862	5,874,310	1,174,862	5,874,310

During the year 2001 there were no changes in the Bank's share capital.

Registered share capital the same as in 2000 made up LVL 2,000,025 (two millions and twenty five Lats). Fully paid share capital made up LVL 5,874,310 (five millions eight hundred seventy four thousands thirty ten Lats) and consisted of 1,174,862 (one million hundred seventy four thousands and eighty sixty two) shares.

All shares are ordinary shares with the par value of LVL 5. 1,174,857 shares carry voting rights. 5 shares carry no voting rights, however, they carry income rights and are registered for Board members.

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The total number of the Bank's shareholders is 104, from which 37 are legal entities and 67 are private persons.

Reserve capital is formed from the contributions from the Bank's shareholders of LVL 545,024.

Shareholders which directly control 10 or more % of the paid-off share capital, are:

Valeri Belokon	35,6243%
Vjacheslav Kramnoj	35,6243%
Vilori Belokon	11,8755%

30. CASH AND CASH EQUIVALENTS

	2001	2000
	LVL	LVL
Cash	291,267	259,035
Balance with the Central Bank	1,006,985	1,032,167
Due from other credit institutions up to 3 months including	10,733,083	15,567,696
	<u>12,031,335</u>	<u>16,858,898</u>

31. RELATED PARTY TRANSACTIONS

	Loans	Guarantees	Other	Provisions	Net exposure
	LVL	LVL	LVL	LVL	LVL
Alla Tkačenko	6,520	-	-	-	6,520
JSC "Baltijas apdrošināšanas nams"	16,126	-	-	-	16,126
JSC "Belokon Holdings"	-	15,950	1,276	-	17,226
E.C.G. Trading S.A.	2,641	-	6,291	-	8,932
Evita Ostrovska	6,779	-	-	-	6,779
Nataļja Tkačenko	4,515	-	-	-	4,515
Oļegs Gerasimovs	14,339	-	-	-	14,339
"Enri Studio" LLC	51,063	-	-	(5,106)	45,957
"Nameks" Limited	26,067	-	-	-	26,067
"Ribeksins Baltija B" Private Limited Company	43,277	-	-	(4,328)	38,949
"Sauls dzīve" LLC	16,800	-	13,200	-	30,000
Valeri Belokon Publishing House, Ltd.	27,000	-	5,000	(8,100)	23,900
Valērijs Belokoņs	3,967	-	8,793	-	12,760
	<u>219,094</u>	<u>15,950</u>	<u>34,560</u>	<u>(17,534)</u>	<u>252,070</u>

32. TRUST MANAGED ASSETS AND LIABILITIES

Bank has a license of the Financial Ministry of the Republic of Latvia – Securities Market Commission for carrying out the trustee transactions with securities and holding the securities accounts, providing the comprehensive service, connected with securities market not only in Latvia, but also abroad. Accordingly, one of the Bank's activities is the client's funds management and carrying out trust operations. Trust contracts are concluded with private and legal entities, which are residents and non-residents of the Latvian Republic. According to the client wishes the Bank invests received funds in the securities or credit markets. Bank undertakes the liability to invest money into the most profitable financial instruments, in the opinion of the trust manager. As of December 31, 2001 the Bank had managed trust funds in the amount of LVL 1,146,158, 100% of it were invested in loans.

33. COMMITMENTS AND CONTINGENCIES

	2001 LVL	2000 LVL
Warranties and guarantees	95,062	39,845
Financial commitments		
Letters of credit	-	151,718
Liabilities for loans issuance	1,404,591	33,388
Liabilities for settlement cards	107,117	-
Other liabilities	920	884
	<u>1,512,628</u>	<u>185,990</u>

34. BANK EMPLOYEES

In 2001 the average quantity of the Bank employees have grown up to 117, in comparative with 2000 it increases to 2 employees. The remuneration of the Supervisory Council the Management Board members made up:

Employees category	2001 LVL	2000 LVL
Supervisory Council members	4,236	6,945
Management Board members	18,456	12,310
	<u>22,692</u>	<u>19,255</u>

35. CAPITAL ADEQUACY CALCULATION as of December 31, 2001

Capital adequacy ratio expresses the ratio of the Bank's shareholders' equity to particular certain assets and off-balance sheet liabilities subject to risk. Capital adequacy ratio reflects the amount of capital resources necessary to cover both credit and market risks, related to the Bank's assets and off-balance sheet liabilities. That is why according to the Regulations on Capital Adequacy Calculation of Finance and Capital Market Commission the Bank maintains the capital adequacy ratio not less than 10% to particular certain assets and off-balance sheet liabilities subject to risk.

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Assets	According to the regulations of the Finance and Capital Market Commission			According to the International Standards (Basle Capital Accord)		
	Amount	Risk degree	Risk weighted value	Amount	Risk degree	Risk weighted value
Cash and balances with the Central Bank	1,298,252	0%	-	1,298,252	0%	-
Due from credit institutions						
<i>Credit institutions registered at the OECD countries</i>	8,787,350	20%	1,757,470	8,787,350	20%	1,757,470
<i>Credit institutions registered in Latvia (on demand)</i>	16,185	20%	3,237	16,185	20%	3,237
<i>Credit institutions registered in Latvia (short-term)</i>	67,635	50%	33,818	67,635	20%	13,527
<i>Credit institutions registered in non-OECD countries</i>	1,927,712	100%	1,927,712	1,927,712	20%	385,542
Securities and investments						
<i>Due from the central governments of the OECD countries</i>	225,346	0%	-	225,346	0%	-
<i>Due from the central governments of non-OECD countries, excluding those denominated in the national currencies of these countries</i>	163,731	100%	163,731	163,731	100%	163,731
<i>Other fixed income securities</i>	736,514	100%	736,514	736,514	100%	736,514
<i>Shares and other non-fixed income securities</i>	242,993	100%	242,993	242,993	100%	242,993
Investments in associated companies	156,356	100%	156,356	156,356	100%	156,356
Loans to customers, net value						
<i>Claims secured with fixed-term deposits</i>	1,100,844	0%	-	1,100,844	0%	-
<i>Claims secured with mortgage, registered at State Land Authorities</i>	210,009	50%	105,005	210,009	50%	105,005
<i>Due from the borrowers which are not credit institutions, excluding claims with the lower risk degree</i>	5,521,455	100%	5,521,455	5,521,455	100%	5,521,455
Prepayments and accrued income	156,125	50%	78,063	156,125	100%	156,125
Fixed assets	1,769,773	100%	1,769,773	1,769,773	100%	1,769,773
Other assets	656,500	100%	656,500	656,500	100%	656,500
TOTAL	23,036,780		13,152,627	23,036,780		11,668,228
Off-balance sheet items						
Warranties and guarantees						
<i>Secured with deposits</i>	63,162	0%	-	63,162	0%	-
<i>Other</i>	31,900	100%	31,900	31,900	100%	31,900
Liabilities for loans issuance						
<i>Secured with deposits</i>	205,564	0%	-	205,564	0%	-
<i>Secured with collateral registered at State Land Authorities</i>	237	50%	119	237	50%	119
<i>Other</i>	1,305,907	100%	1,305,907	1,305,907	100%	1,305,907
Others liabilities	920	100%	920	920	100%	920
TOTAL	1,607,690		1,338,846	1,607,690		1,338,846
TOTAL risk weighted assets and off-balance sheet items value			14,491,473			13,007,074
Paid-in share capital	-	-	5,874,310	-	-	5,874,310
Reserve capital and other reserves	-	-	545,024	-	-	545,024
Retained losses for the previous accounting periods	-	-	(3,956,498)	-	-	(3,956,498)
Retained earnings for the current accounting period	-	-	300,022	-	-	300,022
Intangible assets	-	-	(31,977)	-	-	-
Subordinated capital with term of maturity:						
<i>Within 1 year (including)</i>	-	0%	-	-	0%	-
<i>From 1 to 2 years</i>	55,000	20%	11,000	55,000	20%	11,000
<i>From 2 to 3 years</i>	-	40%	-	-	40%	-
<i>From 3 to 4 years</i>	289,755	60%	173,853	289,755	60%	173,853
<i>From 4 to 5 years</i>	143,381	80%	114,705	143,381	80%	114,705
<i>More than 5 years</i>	540,400	100%	540,400	540,400	100%	540,400
LIABLE CAPITAL	1,028,536		3,570,839	1,028,536		3,602,816
CAPITAL ADEQUACY RATIO			24.64%			27.70%