

**JSC “BALTIC INTERNATIONAL BANK”
FINANCIAL STATEMENTS
DECEMBER 31, 2002**

**JOINT STOCK COMPANY
“BALTIC INTERNATIONAL BANK”
2002 FINANCIAL STATEMENTS**

JSC "BALTIC INTERNATIONAL BANK"
FINANCIAL STATEMENTS
DECEMBER 31, 2002

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MANAGEMENT REPORT

Dear Ladies and Gentlemen,

Presenting you annual report of joint-stock company "Baltic International Bank" (hereinafter referred to as the *Bank*) for the year 2002, we are glad to state the growth of the number of indicators characterizing the activities of the Bank.

In the closed year 2002 we have managed to increase essentially the assets of the Bank – its amount as at the end of 2002 comparing with that as at December 31, 2001 had grown almost for 32%. This assets growth became possible because of the growth of clients' deposits placed with the bank was even more significant – as at December 31, 2002 the amount of fixed-term deposits was for 48% more than that as at the end of the year 2001.

In 2002 loans continued to be one of the most income gaining assets items for the Bank. In current year the Bank has increased essentially its loan portfolio – the growth made up 71% comparing with the previous year. But at the same time the growth of the volume of the loan portfolio hasn't resulted the worsening of the quality of the loans, since while investing assets the Bank continues to follow prudence concept and carries out very conservative credit risk management policy. The loans, secured with liquid collateral and provided to the financially stable borrowers make the most part of the loans portfolio of the Bank.


The second largest item in the list of the revenues of the Bank is net commissions income. Its amount has increased by 9% in 2002 comparing with 2001. The fact that in the current year the commission rates decreased should be taken into account. The main reason of increase of the amount of commission income gained by the Bank is attracting of new clients as well as the growth of the activity of the existing clients.

In the current year the Bank continued developing of its information technologies. We should mention some important projects in this field, which were started by the Bank in 2002.

The Bank was one of the first among Latvian banks who has initiated the project of developing and implementation of the new analytical reports system, what is undoubtedly the new level of development of the banking information technologies. It will allow the Bank to rise to the highest standards the process of preparation of all the internal and external banking reports, what, in its turn, will improve the efficiency of the systems of internal control of all the fields of activities of the Bank.

In the year 2002 the Bank also continued the developing of the system of security of customers' transactions, what allowed at the beginning of 2003 to offer to the clients the possibility to use *Digipass* as an additional means of security of transactions, carried out using *Internet Banking System*.

We thank our clients and partners for the successful cooperation and hope that further it will be even more.



Valeri Belokon
Chairperson of the Council



Alla Tkachenko
Chairperson of the Board

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SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council (as at 31 December 2002)

Name	Position held	Appointed	Re-elected
Valeri Belokon	Chairperson of the Council	19/07/1995	10/01/2001
Vjacheslav Kramnoj, sr.	Deputy Chairperson of the Council	18/07/1997	10/01/2001
Vjacheslav Kramnoj, jr.	Member of the Council	10/01/2001	-

Management Board (as at 31 December 2002)

Name	Position held	Appointed	Re-elected
Alla Tkachenko	Chairperson of the Board	30/04/1996	03/05/2002
Eugenia Litovchenko	Deputy Chairperson of the Board	03/05/2002	-
Vilori Belokon	Member of the Board	19/07/1995	03/05/2002
Leonid Kramnoj	Member of the Board	27/05/1999	03/05/2002
Evita Ostrovska	Member of the Board	27/05/1999	03/05/2002
Natalja Tkachenko	Member of the Board	03/05/2002	-
Dace Kepite	Member of the Board	03/05/2002	-
Albert Reznik	Member of the Board nominee	03/05/2002	-

In the year 2002, the following persons were released from member of the Board and member of the Board nominee positions:

Name	Position held	Appointed	Released
Oleg Gerasimov	Member of the Board	02/02/1996	03/05/2002
Natalja Tkachenko	Member of the Board nominee	27/05/1999	03/05/2002

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STATEMENT OF MANAGEMENT RESPONSIBILITY

Riga

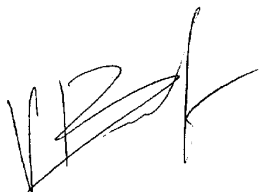
March 10, 2003

On behalf of JSC "Baltic International Bank" (hereinafter referred to as the *Bank*) management Mr.Valeri Belokon, Chairperson of the Council, and Ms.Alla Tkachenko, Chairperson of the Board, are pleased to inform that the 2002 Financial Statements have been prepared pursuant to the applicable laws and regulations of the Republic of Latvia. The 2002 Financial Statements present a true and fair view of the Bank's financial standing as at the accounting year - end, and the Bank's operational results in the accounting year and cash flows.

The Bank's accounting records have been kept in full compliance with the regulatory enactments, and at the same time the Bank management's responsibility is to assure safety of the Bank's assets and to prevent fraud and other wrongful acts. The Bank's management ensures that the Bank's financial business is transacted in accordance with the effective law "On Credit Institutions", other laws and legislative decrees in force, and the Financial and Capital Market Commission's regulatory requirements.

The 2002 Financial Statements have been prepared following the appropriate accounting principles, as consistently maintained by the Bank. The prudence concept and conservatism underlie the Bank's decisions and assumptions relating to the preparation of these Financial Statements. The Bank's management declares that International Financial Reporting Standards have been followed and every single significant variation has been duly mirrored in the covering notes.

On behalf of the Bank's Management



Valeri Belokon
Chairperson of the Council



Alla Tkachenko
Chairperson of the Board

**JSC "BALTIC INTERNATIONAL BANK"
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Baltic International Bank":

We have audited the accompanying balance sheets of a JSC "Baltic International Bank" (the Bank) as of 31 December 2002 and 2001 and the related statements of profit and loss, changes in shareholders' equity and cash flows for the years then ended. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2002 and 2001 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards, the requirements of the Financial and Capital Market Commission and other legislation of the Republic of Latvia.

Deloitte & Touche Audits SIA
Licence No. 43

Justin Bancroft
General Director
Identity No: 221161-14657

Irina Saksaganska
Sworn auditor
Certificate No. 41
Identity No: 010857-11631

Riga, Latvia
10 March 2003

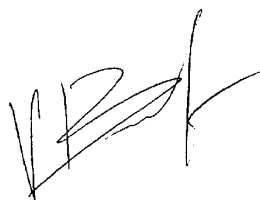
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STATEMENTS OF PROFIT AND LOSS

	Notes	2002 LVL	2001 LVL
Interest income	4	1 857 290	2 074 884
Interest expense	5	(1 054 323)	(1 249 338)
Income from securities	6	1 493	3 617
Fees and commission income	7	601 254	528 787
Fees and commission expense	8	(197 398)	(159 899)
Gain from trading in financial instruments	9	116 174	98 256
Other operating income	10	111 499	120 863
Administrative expenses	11	(1 153 833)	(1 010 437)
Depreciation of intangible assets and fixed assets		(144 788)	(109 604)
Provisions for doubtful debts and off-balance sheet liabilities	18	(73 048)	(352 825)
Release of provisions	12	170 645	304 183
Gain from revaluation of long-term financial investments	20	74 600	51 535
Current year profit before taxation		309 565	300 022
Corporate income tax	13	-	-
Current year profit after taxation		309 565	300 022
Earnings per share		0,26349	0,25537

The accompanying notes on pages 13 to 34 are an integral part of the current financial statements.

The Management Board approved these financial statements on pages 7 to 34 on 10 March 2003.



Valeri Belokon
Chairperson of the Council



Alla Tkachenko
Chairperson of the Board

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BALANCE SHEETS AND OFF - BALANCE SHEET ITEMS

ASSETS	Notes	2002	2001
		LVL	LVL
Cash and balances with the central banks	15	1 228 121	1 298 252
Due from credit institutions and central banks	16	13 599 927	10 745 843
<i>On demand</i>		<i>13 469 247</i>	<i>10 266 455</i>
<i>Others</i>		<i>130 680</i>	<i>479 388</i>
Loans	17	11 707 358	6 821 919
Debt securities and other fixed-income securities	19	876 183	1 117 971
<i>Government debt securities</i>		<i>423 081</i>	<i>381 457</i>
<i>Other debt securities and fixed-income securities</i>		<i>453 102</i>	<i>736 514</i>
Shares and other non-fixed-income securities	19	270 440	242 993
Derivative financial instruments	21	47 485	95 195
Investments in associated companies	22	127 111	156 356
Intangible assets	23	159 349	31 977
Fixed assets	24	2 013 788	1 769 773
Deferred expenses and accrued income	25	260 140	227 173
Other assets	26	102 862	561 305
Total assets		<u>30 392 764</u>	<u>23 068 757</u>

(to be continued)

The accompanying notes on pages 13 to 34 are an integral part of the current financial statements.

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BALANCE SHEETS AND OFF- BALANCE SHEET ITEMS

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	2002 LVL	2001 LVL
Due to credit institutions and central banks	27	3 451 555	116 504
<i>On demand</i>		2 473 355	116 504
<i>Others</i>		978 200	-
Customer deposits	28	22 420 000	18 418 325
<i>On demand</i>		10 273 001	10 242 755
<i>Other customer deposits</i>		12 146 999	8 175 570
Derivative financial instruments	21	49 572	93 545
Deferred income and accrued expenses	29	249 542	193 143
Accruals for liabilities and payments		18 385	29 387
Other liabilities	30	163 874	426 459
Subordinated liabilities	31	967 413	1 028 536
Total liabilities		27 320 341	20 305 899
Shareholders' equity	32	3 072 423	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>Accumulated deficit</i>		(3 656 476)	(3 956 498)
<i>Profit for the current year</i>		309 565	300 022
Total liabilities and shareholders' equity		30 392 764	23 068 757
OFF-BALANCE SHEET ITEMS	36		
Contingent liabilities		222 627	95 062
<i>Warranties and guarantees</i>		222 627	95 062
Commitments to customers		1 142 902	1 512 628
<i>Other commitments</i>		1 142 902	1 512 628
Total off-balance sheet items		1 365 529	1 607 690

(conclusion)

The accompanying notes on pages 13 to 34 are an integral part of the current financial statements.

The Management Board approved these financial statements on pages 7 to 34 on 10 March 2003.



Valeri Belokon
Chairperson of the Council



Alla Tkachenko
Chairperson of the Board

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Paid-in share capital LVL	Reserve capital and other reserves LVL	Accumulated deficit LVL	TOTAL LVL
Balance as at 31 December 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	-	-	300 022	300 022
Balance as at 31 December 2001	<u>5 874 310</u>	<u>545 024</u>	<u>(3 656 476)</u>	<u>2 762 858</u>
Profit for the current year	-	-	309 565	309 565
Balance as at 31 December 2002	<u>5 874 310</u>	<u>545 024</u>	<u>(3 346 911)</u>	<u>3 072 423</u>

The accompanying notes on pages 13 to 34 are an integral part of the current financial statements.

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STATEMENTS OF CASH FLOWS

In accordance with the Financial and capital market commission's regulatory requirements

	Notes	2002 LVL	2001 LVL
Cash flow from operating activities			
Profit before taxes		309 565	300 022
Depreciation and amortization of intangible and fixed assets		144 788	109 604
(Decrease)/increase in provisions for doubtful debts and off-balance sheet commitments		(128 947)	49 265
Loss/(profit) from foreign currency translation		219 535	(94 321)
(Profit) from revaluation of long-term financial investments		(74 600)	(51 535)
(Profit)/loss from sale of fixed assets		-	(978)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		470 341	312 057
Increase in deferred income and accrued expenses		56 399	28 779
(Increase) in deferred expenses and accrued income		(32 583)	(105 258)
Decrease in other assets		507 796	315 672
(Decrease)/increase in other liabilities		(306 558)	409 530
(Decrease) in accruals for liabilities and payments		(11 002)	-
Decrease/(increase) in short-term investments		214 341	(684 431)
Decrease/(increase) in balances due from credit institutions		781	(500)
(Increase) in loans		(4 758 420)	(1 968 804)
Increase in balances due to credit institutions		206 000	-
Increase/(decrease) in deposits		4 001 675	(2 588 767)
(Decrease)/increase in subordinated liabilities		(61 123)	34 729
Increase/(decrease) in cash and cash equivalents from operating activities		287 647	(4 246 993)
Cash flow from investing activities			
(Purchase) of fixed assets and intangible assets		(439 359)	(532 183)
Proceeds from sales of fixed assets and intangible assets		2 029	4 738
Proceeds from sales of stakes held in enterprises/companies		25 000	-
(Decrease) in cash and cash equivalents as a result of investing activities		(412 330)	(527 445)
(Decrease) in cash and cash equivalents		(124 683)	(4 774 438)
Opening balance of cash and cash equivalents	33	11 914 831	16 594 948
(Loss)/profit from foreign currency translation	9	(219 535)	94 321
Closing balance of cash and cash equivalents	33	11 570 613	11 914 831

The accompanying notes on pages 13 to 34 are an integral part of the current financial statements.

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STATEMENTS OF CASH FLOWS

In accordance with the International Financial Reporting Standard

	Notes	2002 LVL	2001 LVL
Cash flow from operating activities			
Profit before taxes		309 565	300 022
Depreciation and amortization of intangible and fixed assets		144 788	109 604
(Decrease)/increase in provisions for doubtful debts and off-balance sheet commitments		(128 947)	49 265
Loss/(profit) from foreign currency translation		219 535	(94 321)
(Profit) from revaluation of long-term financial investments		(74 600)	(51 535)
(Profit)/loss from sale of fixed assets		-	(978)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		470 341	312 057
Increase in deferred income and accrued expenses		56 399	28 779
(Increase) in deferred expenses and accrued income		(32 583)	(105 258)
Decrease in other assets		507 796	315 672
(Decrease)/increase in other liabilities		(306 558)	409 530
(Decrease) in accruals for liabilities and payments		(11 002)	-
Decrease/(increase) in short-term investments		214 341	(684 431)
Decrease/(increase) in balances due from credit institutions		781	(500)
(Increase) in loans		(4 758 420)	(1 968 804)
Increase/(decrease) in balances due to credit institutions		3 335 051	(147 446)
Increase/(decrease) in deposits		4 001 675	(2 588 767)
(Decrease)/increase in subordinated liabilities		(61 123)	34 729
Increase/(decrease) in cash and cash equivalents from operating activities		3 416 698	(4 394 439)
Cash flow from investing activities			
(Purchase) of fixed assets and intangible assets		(439 359)	(532 183)
Proceeds from sales of fixed assets and intangible assets		2 029	4 738
Proceeds from sales of stakes held in enterprises/companies		25 000	-
(Decrease) in cash and cash equivalents as a result of investing activities		(412 330)	(527 445)
Increase/(Decrease) in cash and cash equivalents		3 004 368	(4 921 884)
Opening balance of cash and cash equivalents	33	12 031 335	16 858 898
(Loss)/profit from foreign currency translation	9	(219 535)	94 321
Closing balance of cash and cash equivalents	33	14 816 168	12 031 335

The accompanying notes on pages 13 to 34 are an integral part of the current financial statements.

1. GENERAL INFORMATION

JSC Baltic International Bank's (hereinafter referred to as the *Bank*) principal activity is rendering banking services to private individuals and legal entities in areas such as lending, acceptance of deposits, customer fund transfer, diverse transactions in the financial market by order of the clients and for the Bank's trading purposes.

The largest share of the Bank's customer base is represented by Latvian and cross-border large corporate customers. The principle of conservatism underlies the Bank's customer policy. To choose potential customers to partner with, the Bank uses a set of criteria. Abiding by this principle ensures top-level customer service complemented by treating each customer differently to meet the customer's exact needs, which in turn drives down chances of partnering with risky clients. When choosing customers, the Bank focuses strongly on the issues relating to the prevention of money laundering since in recent years these issues have become exceptionally vital.

The law "On Credit Institutions", the law "On the Prevention of Money Laundering", other laws, and the Financial and Capital Market Commission's regulations provide the framework under which the Latvian banking industry operates.

2. INTERPRETATION OF ACCOUNTING POLICIES AND THE PRINCIPLES OF ASSESSMENT

General principles of accounting

The Bank's financial statements are prepared following International Financial Reporting Standards. Initially the financial statements are prepared under the historical cost convention. Subsequently the financial assets and liabilities are re-measured and recognized in the financial statements at their fair value.

Foreign currency translation

The presentation currency of the Bank's financial statements is the lat of the Republic of Latvia (LVL). All assets and liabilities as well as off-balance sheet claims and commitments denominated in foreign currencies are translated into lats according to the Bank of Latvia's established exchange rate at the reporting period-end. Gains and losses resulting from the effect of exchange rate fluctuations are recognized in the profit and loss account for the reporting period.

The official exchange rates used on the day of the translation are as follows:

Currency		The Bank of Latvia's rate valid as at 31.12.2002	The Bank of Latvia's rate valid as at 31.12.2001
1 EUR	=	LVL 0.610000	LVL 0.560856
1 GBP	=	LVL 0.946000	LVL 0.924000
1 USD	=	LVL 0.594000	LVL 0.638000

Accounting for income and expenses

The reporting periods - related income and expenses are included in the statements of profit and loss regardless of when they were received and paid. All interest income and expenses are recognized in the financial statements on an accruals basis. Accrued interest income is calculated only on loans categorized as *standard* and *watch*. Fees and commission received from customers are included in income as at the transaction date, unless otherwise provided by the relevant agreement between the Bank and the customer.

Investments

The Bank's investments fall into two portfolios: the investment portfolio and the trading portfolio.

(a) Securities purchased for investment purposes (held-to-maturity)

The Bank's investment portfolio comprises government securities and corporate bonds, which are recognized at amortized cost. Held-to-maturity securities are accounted for using a settlement date basis for purchases. Initially, held-to-maturity securities are recorded at their purchase value adjusted for discounts or premiums. Subsequently the straight-line method is used for amortizing discounts over the term to maturity. There is no material difference between the result obtained and that, which might have been obtained based on the effective interest method.

(b) Securities purchased for trading purposes (trading)

The Bank acquires trading securities for speculative purposes. The Bank's trading portfolio comprises fixed-income and non-fixed-income securities issued by the Latvian and cross-border issuers. Trading securities are accounted for using the settlement date basis for both purchases and sales. Trading securities are initially recognized at purchase cost (which includes transaction costs) and subsequently re-measured at fair value based on market prices. Realized and unrealized gains or losses are recorded as net trading income or net trading loss, respectively.

The re-classification of financial instruments from the trading portfolio to the investment portfolio is not allowed. The re-classification of a financial instrument from the investment portfolio to the trading portfolio is allowed in the following cases: where behavior of a financial instrument is impossible to forecast and the financial markets signal an acute fluctuation of prices and interest rates; where the Bank's investment policy or business strategy is revised.

Financial transactions

The Bank trades derivative contracts and executes other off-balance sheet financial transactions.

(a) Derivative instruments

As for derivative contracts, the Bank is a party to foreign currency *forward* and *swap* contracts. Gains or losses resulting from changes in currency exchange rates as at the transaction date are recognized in the statements of profit and loss as a profit or loss from the revaluation of positions in foreign currencies. Also, the Bank's derivative contracts comprise *options*. Where *options* are involved, option premiums paid are recognized in the balance sheet at market prices.

(b) Other off - balance sheet financial transactions

In its daily business, the Bank is involved in off-balance sheet financial transactions associated with lending, the issuance of bank guarantees and letters of credit. These financial transactions are recorded in the financial statements as at the relevant agreement's sealing date. Since such off-balance sheet liabilities are exposed to off-balance sheet risks differing in their levels, in the financial statements off-balance sheet liabilities are included in the capital adequacy calculation, liquidity risk analysis and currency risk analysis.

Loans and provisions

In the financial statements loans are recorded at their book value, i.e., issued and still outstanding loan principals less specific loan loss provisions held against non-performing and doubtful loans.

Provisions for possible loan losses are created in line with International Financial Reporting Standards and the Financial and Capital Market Commissions' regulations and they represent possible loan loss amounts as at the financial statements date. The Bank reviews the amount of provisions held against non-performing and doubtful loans on a regular basis and, if necessary, makes adjustments based on risk exposure properly measured for each loan to fully comply with the Bank's Credit Policy. Whenever a

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loan is recognized as a non-performing loan, loan loss reserves are released from the provisions account and the loan is written off the balance sheet. The collateral underlying non-performing loans is included in other assets at its estimated recoverable market value. The value of the previously written-off and ultimately recovered loans is recorded in the statements of profit and loss as earnings in the respective period, when it has been repaid.

The value of loans does not vary significantly from the discounted amount of future cash flows where expected cash flows are discounted using the discount factor of the market interest rates. The difference is minor, since with the increase in the Bank's issued long-term loans a variable interest rate is applied; in its turn, a fixed interest rate applied to the loans is revised on yearly basis.

Intangible assets

The Bank's intangible assets comprise licenses, which are necessary for the Bank's normal performance, and an array of software programs. The Bank's intangible assets are accounted for at their historical cost less depreciation. Intangible assets amortisation term is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, then the Bank amortises the intangible asset into expenses over a period of 5 years. The Bank applies the straight-line method of depreciation to write off intangible assets, based on the assumption that intangible assets constantly lose their value.

In the year 2002, a number of the Bank's software programs (which are not part and parcel of fixed assets) were reclassified, i.e. removed from fixed assets to intangible assets.

Fixed assets

Fixed assets are recorded in the Bank's financial statements at their historical cost less depreciation. Fixed assets having a purchase price below 100 lats are expensed at the moment of purchase. Fixed assets purchased for foreign currency are accounted for in lats at the Bank of Latvia's established rate valid as at the assets factual delivery date. The depreciation terms of the Bank's fixed assets are as follows:

Buildings and constructions	50 years
Machinery	5 years
Cars	5 years
Other fixed assets	10 years
Computers	5 years

As for construction projects and land plots, depreciation is not calculated. Fixed asset maintenance and routine repair - related expenses are included in the profit and loss account when they arise. The Bank's own fixed asset overhaul - related expenses are added to the respective asset on the balance sheet. Leasehold improvements are included in the balance sheet item "Deferred expenses" and are depreciated over their related rent term.

Investment property

In accordance with International Financial Reporting Standards and the Financial and Capital Market Commission's requirements investment property is initially recognized in the balance sheet at its purchase value, including purchase costs. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Changes in value are recorded in the statements of profit and loss in "Gain or loss from revaluation of long-term financial investments" item.

Repo operations

Securities sold under repurchase agreements (*repos*) are recorded in the financial statements along with other securities, while the Bank's commitments are included in the respective items in the liabilities-side of the balance sheet, as "Due to credit institutions" or "Deposits" depending on the agreement's characteristics.

Fair value of financial assets and liabilities

Fair value is based on the intentions for further activity of the Bank in certain financial assets and financial liabilities, taking into account its current financial position. The initial evaluation of financial assets and financial liabilities of the Bank is carried out at the 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 Bank's balance sheet is carried out at depreciated cost, excluding trading assets and liabilities and derivatives. The fair value of a financial asset and financial liability is established by means of an evaluation method based on the initial data of the market, interest rates, norms of determined losses for granted loans, and the coefficient for discounting. The trading portfolio, consisting of the securities of the Bank, is carried at fair value, which is based on published quotes on active markets.

Money in transits

At the accounting period-end "Money in transits" is included in the respective customer's account balances.

Cash and cash equivalents

For the purpose of compliance with the regulations of the Financial and Capital Market Commission, cash and cash equivalents in the statement of cash flows comprises cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

For the purpose of compliance with International Financial Reporting Standards, cash and cash equivalents comprises cash and deposits with the Bank on Latvia and other credit institutions with a maturity of less than 3 months when purchased.

Corporate income tax

Corporate income tax in the Republic of Latvia is a direct tax on profits, which is collected at the rate of 22%. Deferred tax liabilities or claims arise from temporary differences insofar as the Bank's income and expenses stated in tax return and their carrying amounts in the financial statements are not recognized at the same time. Deferred tax liabilities or claims arise for the Bank as a result of short-term differences, connected with non-simultaneous recognition of income and expense in the financial statements or 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.

3. RISK MANAGEMENT

The Bank focuses its significant efforts on risks analysis and risk management. The Bank's approved risk management policies encompass core risks such as credit risk, liquidity risk, currency risk and trading risk, set forth regulatory limits on risk transactions and outline the procedures leveled at risk mitigation across all of the Bank's business areas. The Bank's Board and in-house units such as the Credit Committee and the Resources Supervision Committee continuously follow up to see if the guidelines and regulatory requirements outlined in the internal documents are adhered to and ensure the on-going improvement of the risk management system in view of the ever-evolving structure of financial instruments and transactions.

Credit risk

To minimize credit risk, the Bank has set internal limits on various deals and transactions, such as limits on the amount involved in the transaction with one borrower based on the borrower's profile and the borrower's underlying collateral type and amount, including other criteria, i.e. limits on the amount to be deposited with one bank based on a given bank's financial standing analysis results, depending on the place where the bank in question is incorporated and domiciled, transaction currency and a number of other criteria, limits imposed on securities transactions based on securities class, portfolio profile, issuer's country and other limits. All of the said restrictions are set forth by the Bank's internal policies and regulations. As for supervisory arrangements over the maintenance of set limits, this responsibility is shared in the Bank between the relevant in-house structural units such as the Resource Supervision Committee, the Credit Committee and the Bank's Board. The Bank's adopted procedures are designed to trace, analyse and monitor credit risk, complemented by the maintenance of limits set by internal policies and regulations, to ensure that a multilateral control system is in place whenever the Bank seals any deals associated with the deployment of funds.

Liquidity risk

The Bank carries out liquidity management in compliance with the Bank's approved Liquidity Management Policy, which sets forth terms for overall net position limits. In the Bank's business, the Resource Supervision Committee's responsibility is to implement and to meet the requirements of this Policy. Under this Policy, the Resource Supervision Committee sets the appropriate liquidity net position sub-limits on the maximum volume of deposits attracted from one customer, and other restrictions. It also ensures the maintenance of set limits for adherence to the procedures. Liquidity risk management is implemented through the maintenance of the Bank's set limits and coordination of the repayment terms of the deployed assets and the Bank's attracted deposits. To maintain the required liquidity level, every month the Resource Supervision Committee makes a number of assumptions as to the withdrawal of deposits and determines the amount of "doubtful" deposits, forecasts the increase in demand for loans and changes in the market situation. Also, the Liquidity Policy envisages the scenario of how to address the Bank's liquidity problem and to deal with a liquidity crisis in the event of its incidence.

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	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 years and more	Pledged	TOTAL LVL
ASSETS									
Cash and balances with the central banks	1 228 121	-	-	-	-	-	-	-	1 228 121
Due from credit institutions and central banks	13 469 247	118 800	-	-	11 880	-	-	-	13 599 927
Loans	290 968	3 154 412	803 201	224 803	213 576	6 508 670	511 728	-	11 707 358
Debt securities and other fixed-income securities	686 483	-	-	-	-	-	-	189 700	876 183
<i>Government debt securities</i>	333 381	-	-	-	-	-	-	89 700	423 081
<i>Other debt securities and fixed-income securities</i>	353 102	-	-	-	-	-	-	100 000	453 102
Shares and other non-fixed-income securities	220 261	-	-	-	-	-	50 179	-	270 440
Derivative financial instruments	2 782	44 703	-	-	-	-	-	-	47 485
Investments in associated companies	-	-	-	-	-	-	127 111	-	127 111
Intangible assets	-	-	-	-	-	-	159 349	-	159 349
Fixed assets	-	-	-	-	-	-	2 013 788	-	2 013 788
Deferred expenses and accrued income	18 386	47 007	31 408	26 335	27 759	57 533	51 712	-	260 140
Other assets	3 413	-	-	25 000	-	-	74 449	-	102 862
Total assets	15 919 661	3 364 922	834 609	276 138	253 215	6 566 203	2 988 316	189 700	30 392 764
LIABILITIES									
Due to credit institutions and central banks	2 473 355	-	772 200	-	-	-	-	206 000	3 451 555
Customer deposits	9 429 722	6 093 355	665 000	2 814 394	502 943	2 913 910	676	-	22 420 000
Derivative financial instruments	2 051	47 521	-	-	-	-	-	-	49 572
Deferred income and accrued expenses	13 126	96 577	6 124	14 629	6 728	112 358	-	-	249 542
Accruals for liabilities and payments	18 385	-	-	-	-	-	-	-	18 385
Other liabilities	163 619	-	255	-	-	-	-	-	163 874
Subordinated liabilities	-	-	-	-	55 000	882 713	29 700	-	967 413
Off-balance sheet liabilities	1 329 418	-	-	-	-	-	-	-	1 329 418
Total liabilities	13 429 676	6 237 453	1 443 579	2 829 023	564 671	3 908 981	30 376	206 000	28 649 759
Maturity gap	2 489 985	(2 872 531)	(608 970)	(2 552 885)	(311 456)	2 657 222	2 957 940	-	1 743 005

Off-balance sheet liabilities are diminished by the amount of the issued guarantees, which are secured by deposits placed with the Bank and totaling LVL 36 111.

Currency risk

The Bank has formulated the relevant internal documents, which regulate currency risk management and control over the fluctuation of exchange rates. The Currency Risk Management Policy is the basic document. The Bank Resource Supervision Committee's responsibility is to ensure that the regulatory requirements outlined in the Policy are implemented. The regulatory requirements impose restrictions on the size of currency conversion transactions and on the open position in currencies. Under the Law on "Credit Institutions", the open position in one foreign currency may not exceed 10%, while the overall open position in currencies may not exceed 20% of the Bank equity.

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In the financial market the Bank seals and trades *spot* contracts on the delivery of foreign currencies. Also, the Bank buys and sells currencies for *swap* and *forward* dates. The Bank executes these deals in accord with its dedication to serve customers. The Bank does not transact speculative business.

**ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE
as at December 31, 2002**

ASSETS	LVL	USD	EUR	Other currencies	TOTAL LVL
Cash and balances with the central banks	1 090 198	56 737	34 633	46 553	1 228 121
Due from credit institutions and central banks	5 517	12 983 270	113 531	497 609	13 599 927
<i>On demand</i>	5 517	12 852 590	113 531	497 609	13 469 247
<i>Others</i>	-	130 680	-	-	130 680
Loans	1 680 800	9 201 773	809 385	15 400	11 707 358
Debt securities and other fixed-income securities	202 377	673 806	-	-	876 183
<i>Government debt securities</i>	96 445	326 636	-	-	423 081
<i>Other issuers' securities and other fixed-income securities</i>	105 932	347 170	-	-	453 102
Shares and other non-fixed-income securities	50 179	220 261	-	-	270 440
Derivative financial instruments	47 485	-	-	-	47 485
Investments in associated companies	127 111	-	-	-	127 111
Intangible assets	159 349	-	-	-	159 349
Fixed assets	2 013 788	-	-	-	2 013 788
Deferred expense and accrued income	76 867	175 475	7 771	27	260 140
Other assets	83 688	18 733	441	-	102 862
Total assets	5 537 359	23 330 055	965 761	559 589	30 392 764
LIABILITIES					
Due to credit institutions and central banks	206 023	3 245 531	-	1	3 451 555
<i>On demand</i>	23	2 473 331	-	1	2 473 355
<i>Others</i>	206 000	772 200	-	-	978 200
Customer deposits	2 029 163	18 608 585	1 300 502	481 750	22 420 000
<i>On demand</i>	834 909	7 763 156	1 208 586	466 350	10 273 001
<i>Others customer deposits</i>	1 194 254	10 845 429	91 916	15 400	12 146 999
Derivative financial instruments	49 572	-	-	-	49 572
Deferred income and accrued expenses	73 835	169 479	4 728	1 500	249 542
Accruals for liabilities and payments	18 127	258	-	-	18 385
Other liabilities	11 905	95 178	16 260	40 531	163 874
Subordinated liabilities	142 251	825 162	-	-	967 413
Shareholders' equity	3 072 423	-	-	-	3 072 423
<i>Share capital</i>	5 874 310	-	-	-	5 874 310
<i>Reserve capital and other reserves</i>	545 024	-	-	-	545 024
<i>Accumulated losses</i>	(3 656 476)	-	-	-	(3 656 476)
<i>Profit for the current year</i>	309 565	-	-	-	309 565
Total liabilities and shareholders' equity	5 603 299	22 944 193	1 321 490	523 782	30 392 764
BALANCE POSITION	(65 940)	385 862	(355 729)	35 807	-
OFF-BALANCE SHEET LIABILITIES					
Warranties and guarantees	(471)	(222 156)	-	-	(222 627)
Off-balance sheet commitments to customers	(41 773)	(1 100 571)	(558)	-	(1 142 902)
Total off-balance sheet liabilities	(42 244)	(1 322 727)	(558)	-	(1 365 529)
Unsettled <i>spot</i> contracts	719 734	(1 316 807)	531 197	53 504	
<i>Forward</i> contracts	(1 177 716)	1 188 000	-	-	
NET POSITION	(524 393)	34 899	175 468	89 311	
Ratio to the shareholders' equity (%)*		1%	5%	3%	

The ratio for the overall open position in foreign currencies and gold to the Bank shareholders' equity as of 31 December 2002 stood at 9%.

* Equity (net worth) totaling LVL 3 513 548

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Interest rate risk

One of the methods used to manage the Bank's interest rates risk includes the opportunity for the Bank, as stipulated in loan agreements, on its own initiative to reset the interest rate applied on the loan depending on the movements in the market rate. To monitor interest rate risk, the Bank analyses interest income and expenses in accordance with the respective assets and liabilities on a regular basis. The Resource Supervision Committee is entitled to set limits on interest rates applied on loans and overdrafts, and also on deposits and current accounts balances. The Bank's Board resets the Bank's approved interest rates on a regular basis in view of the current situation at the Bank and based on predictions for the rise or fall of interest rates of a certain currency that may take place within a certain time frame.

	Average monthly balance LVL	Interest LVL	2002 Average weighted interest rate %	Average monthly balance LVL	Interest LVL	2001 Average weighted interest rate %
ASSETS						
Cash and balances with the central banks	1 283 759	-	0%	1 242 163	-	0%
Due from credit institutions and central banks	8 413 261	596 575	7%	10 553 907	1 067 360	10%
<i>On demand</i>	8 058 272	475 808	6%	9 601 207	288 311	3%
<i>Others</i>	354 989	120 767	34%	952 700	779 049	82%
Loans	12 354 948	1 206 982	10%	9 112 489	950 877	10%
<i>Loans (gross)</i>	12 817 524	1 206 982	9%	9 629 463	950 877	10%
<i>Specific provisions for doubtful loans</i>	(462 576)	-	-	(516 974)	-	-
Debt securities and other fixed-income securities	1 041 496	53 733	5%	1 083 811	56 647	5%
(a) TOTAL ASSETS	23 093 464	1 857 290	8%	21 992 370	2 074 884	9%
LIABILITIES						
Due to credit institutions and central banks	1 373 242	36 056	3%	392 823	25 689	7%
<i>On demand</i>	675 900	-	0%	206 796	-	0%
<i>Others</i>	697 342	36 056	5%	186 027	25 689	14%
Deposits	19 288 372	980 476	5%	22 048 243	1 183 447	5%
<i>On demand</i>	9 818 020	60 682	1%	15 033 066	184 026	1%
<i>Others</i>	9 470 352	919 794	10%	7 015 177	999 421	14%
Subordinated liabilities	999 249	37 791	4%	1 014 517	40 202	4%
(b) TOTAL LIABILITIES	21 660 863	1 054 323	5%	23 455 583	1 249 338	5%
Paid-in share capital	5 874 310	-	0%	5 874 310	-	0%
(c) TOTAL LIABILITIES	27 535 173	1 054 323	4%	29 329 893	1 249 338	4%
Net interest income	-	802 967	-	-	825 546	-
Interest spread % (a)-(b)	-	-	3%	-	-	4%
Investment spread % (a)-(c)	-	-	4%	-	-	5%

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**ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE
 BASED ON FLUCTUATING INTEREST RATES
 as at December 31, 2002**

	Up to 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 year and more LVL	Unpaid interest LVL	TOTAL LVL
ASSETS							
Cash and balances with the central banks	-	-	-	-	-	1 228 121	1 228 121
Due from credit institutions and central banks	12 865 463	48 166	-	59 412	-	626 886	13 599 927
Loans	11 707 358	-	-	-	-	-	11 707 358
Debt securities and other fixed-income securities	-	12 056	666 453	-	-	197 674	876 183
<i>Government debt securities</i>	-	-	224 573	-	-	178 508	423 081
<i>Other debt fixed-income securities</i>	-	12 056	421 880	-	-	19 166	453 102
Shares and other non-fixed income securities	-	-	-	-	-	270 440	270 440
Derivative financial instruments	-	-	-	-	-	47 485	47 485
Investments in associated companies	-	-	-	-	-	127 111	127 111
Intangible assets	-	-	-	-	-	159 349	159 349
Fixed assets	-	-	-	-	-	2 013 788	2 013 788
Deferred expense and accrued income	-	-	-	-	-	260 140	260 140
Other assets	-	-	-	-	-	102 862	102 862
Total assets	24 572 821	60 222	666 453	59 412	-	5 033 856	30 392 764
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions and central banks	772 200	206 000	-	-	-	2 473 355	3 451 555
Customer Deposits	12 448 277	2 853 768	480 390	173 539	726 699	5 737 327	22 420 000
Derivative financial instruments	-	-	-	-	-	49 572	49 572
Deferred income and accrued expense	-	-	-	-	-	249 542	249 542
Accruals for liabilities and payments	-	-	-	-	-	18 385	18 385
Other liabilities	-	-	-	-	-	163 874	163 874
Subordinated liabilities	597 197	-	-	55 000	-	315 216	967 413
Shareholders' equity	-	-	-	-	-	3 072 423	3 072 423
Share capital	-	-	-	-	-	5 874 310	5 874 310
Reserve capital and other reserves	-	-	-	-	-	545 024	545 024
Accumulated deficit	-	-	-	-	-	(3 656 476)	(3 656 476)
Profit for the current year	-	-	-	-	-	309 565	309 565
Total liabilities and shareholders' equity	13 817 674	3 059 768	480 390	228 539	726 699	12 079 694	30 392 764
Off-balance sheet liabilities	-	-	-	-	-	1 365 529	1 365 529

Trading risk

Irrespective of the relatively insignificant volume of trades conducted, the Bank focuses a lot of attention on the monitoring and analysis of trading risk. The Bank has formulated a number of regulatory documents designed scrutinize trading risk. The Bank's Trading Policy is a fundamental document in place to provide guidance. The Bank's Resource Supervision Committee is obligated to trace the trading risk facing the Bank and to meet the requirements of the Trading Policy and the Bank's other internal policies and regulations.

Operational risk

Operational risk is the risk of loss, which may stem from the shortcomings of the staff employees, damage of in-house hardware, contingencies, fire and other factors of this sort. To prevent such losses, the Bank has a number of in-house regulatory documents in place such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to oversee the implementation of the regulatory requirements set forth in the aforesaid intrabank documents.

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4. INTEREST INCOME

	2002	2001
	LVL	LVL
Loans	1 202 243	950 353
Due from credit institutions	596 575	1 067 360
Investments in securities	53 733	56 647
Payment cards	4 739	524
	<u>1 857 290</u>	<u>2 074 884</u>

5. INTEREST EXPENSE

	2002	2001
	LVL	LVL
Due to credit institutions	36 056	25 689
Deposits	980 476	1 183 447
Subordinated liabilities	37 791	40 202
	<u>1 054 323</u>	<u>1 249 338</u>

6. INCOME FROM SECURITIES

	2002	2001
	LVL	LVL
Dividend income	1 493	3 617
	<u>1 493</u>	<u>3 617</u>

7. FEES AND COMMISSION INCOME

	2002	2001
	LVL	LVL
Guarantees	880	1 443
Cash operations	19 346	15 327
Transfer of funds	538 593	494 690
Letters of Credit	5 660	5 930
Trust operations	803	4 167
Servicing of Security accounts	4 808	-
Payment cards	22 466	7 217
Servicing of loans	970	-
Forex transactions	7 728	-
Other	-	13
	<u>601 254</u>	<u>528 787</u>

8. FEE AND COMMISSION EXPENSE

	2002	2001
	LVL	LVL
Services of correspondent banks	169 532	136 400
Security-based transactions	13 634	19 096
Payment cards	7 237	2 251
Forex transactions	6 995	-
Other	-	2 152
	<u>197 398</u>	<u>159 899</u>

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9. NET RESULT FROM TRADING IN FINANCIAL INSTRUMENTS

	2002	2001
	LVL	LVL
Profit from foreign exchange operations	386 465	77 027
Gain/(loss) from revaluation of positions in foreign currency	(219 535)	94 321
(Loss) from trading in financial instruments	(52 682)	(48 608)
Gain/(loss) from revaluation of trading and other financial instruments	1 923	(24 486)
Gain from trading in precious metal	3	2
	<u>116 174</u>	<u>98 256</u>

10. OTHER OPERATING INCOME

	2002	2001
	LVL	LVL
Rent of premises	111 116	112 416
Sale of fixed assets	319	978
Penalties received	11	299
Tax refund	-	23
Other	53	7 147
	<u>111 499</u>	<u>120 863</u>

11. ADMINISTRATIVE EXPENSES

	2002	2001
	LVL	LVL
Remuneration to the Council and the Board	10 271	8 482
Salaries to staff employees	299 513	246 281
Social insurance payments	80 656	66 281
Stationary and miscellaneous	50 030	37 371
Professional services	164 561	160 079
Advertising	24 806	10 220
Business trips	38 620	22 680
Communication	152 732	137 735
Cars	39 389	32 934
Repairs and maintenance of fixed assets	5 158	5 367
Renovation and maintenance of premises	50 968	52 957
Security	13 281	11 608
Representation expenses	59 149	36 787
Rent of land	1 190	5 541
Penalties paid	33 317	31 860
Land and property taxes	6 410	15 918
Other	123 782	128 336
	<u>1 153 833</u>	<u>1 010 437</u>

12. RELEASE OF PROVISIONS

	2002	2001
	LVL	LVL
Release of provisions	170 645	303 560
Recoveries on assets previously written off	-	623
	<u>170 645</u>	<u>304 183</u>

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13. CORPORATE INCOME TAX

Reconciliation of corporate income tax paid using an effective tax rate against the actual tax expenses

	2002	2001
	Rate 22%	Rate 25%
	LVL	LVL
Pre-Tax Profit	309 565	300 022
Accrued hypothetical (notional) corporate income tax	69 515	78 985
<u>Tax effect of:</u>		
Tax-non-deductibles (amount for which the Bank may not reduce its taxable income)	(106 937)	(34 776)
Unrecognized assets for deferred tax	(37 422)	(44 209)
Tax charge	<u><u>-</u></u>	<u><u>-</u></u>
	2002	2001
	Tax effect	Tax effect
	19%	22%
	LVL	LVL
Temporary differences in amortization of fixed assets	(160 290)	(149 265)
Temporary differences in tax loss carried forward	282 137	502 066
Deferred tax assets	<u><u>121 847</u></u>	<u><u>352 801</u></u>

The Bank is allowed to offset losses suffered by the Bank in the year 1999, until 2004.

14. TAXES AND SOCIAL INSURANCE PAYMENTS

Taxes paid	2002	
	LVL	
Tax on real estate	6 078	
Value added tax	27 409	
Social tax	108 565	
Personnel income tax	61 832	
Corporate income tax from non-residents	1 095	
Penalties paid	-	
Total taxes paid	<u><u>204 979</u></u>	

15. CASH AND BALANCES WITH THE CENTRAL BANK

	2002	2001
	LVL	LVL
Cash	488 956	291 267
Balance with the Bank of Latvia	739 165	1 006 985
	<u><u>1 228 121</u></u>	<u><u>1 298 252</u></u>

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16. DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

	2002	2001
	LVL	LVL
Credit institutions incorporated in the Republic of Latvia	155 530	83 813
Credit institutions incorporated in the OECD countries	12 856 361	8 778 265
Credit institutions incorporated in other countries	588 135	1 883 765
	<u>13 600 026</u>	<u>10 745 843</u>
Specific provisions	(99)	-
	<u><u>13 599 927</u></u>	<u><u>10 745 843</u></u>

17. LOANS

(a) Loans by type

	2002	2001
	LVL	LVL
Overdrafts	2 855 846	718 990
Commercial loans	4 068 831	3 657 304
Industrial loans	971 415	77 253
Financial leasing	335 785	123 193
Payment cards	38 003	8 937
Consumer loans	27 478	41 150
Mortgage loans	1 350 331	1 710 553
Other	2 494 706	1 046 595
	<u>12 142 395</u>	<u>7 383 975</u>
Specific provisions	(435 037)	(562 056)
	<u><u>11 707 358</u></u>	<u><u>6 821 919</u></u>

(b) Loan profile by geographic location

	2002	2001
	LVL	LVL
Latvian residents	7 373 947	6 285 305
OECD country residents	4 201 878	1 034 530
Other countries' residents	566 570	64 140
	<u>12 142 395</u>	<u>7 383 975</u>
Specific provisions	(435 037)	(562 056)
	<u><u>11 707 358</u></u>	<u><u>6 821 919</u></u>

(c) Loans by customer profile

	2002	2001
	LVL	LVL
Loans to state-owned companies and municipalities	2 628	12 968
Loans to financial institutions	384 913	-
Loans to private companies	10 761 196	6 307 563
Loans to private individuals	824 534	927 594
Loans to the Bank's top management and staff employees	169 124	135 850
	<u>12 142 395</u>	<u>7 383 975</u>
Specific provisions	(435 037)	(562 056)
	<u><u>11 707 358</u></u>	<u><u>6 821 919</u></u>

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(d) Loans by initial term profile	2002	2001
	LVL	LVL
Up to 1 month (including)	3 183 926	727 926
3 to 6 months	1 249	956 622
6 to 12 months	963 234	119 631
More than 1 year	7 993 986	5 579 796
	12 142 395	7 383 975
Specific provisions	(435 037)	(562 056)
	11 707 358	6 821 919

18. ANALYSIS OF CHANGES IN PROVISIONS

	Loans	Due from credit institutions	Other assets	Accrued income	Total
	LVL	LVL	LVL	LVL	LVL
Provisions as at 31 December 2001	562 056	-	10 471	8 456	580 983
Amounts written-off	-	-	(8 272)	-	(8 272)
Increase in specific provisions	65 273	98	6 707	970	73 048
Release from specific provisions	(169 490)	-	-	(1 155)	(170 645)
Foreign currency accumulated adjustment	(22 802)	1	(78)	(199)	(23 078)
Provisions as at 31 December 2002	435 037	99	8 828	8 072	452 036

19. INVESTMENTS IN SECURITIES

a. Fixed-income debt securities and other fixed-income securities

	2002	2001
	LVL	LVL
Government treasury bills of the Republic of Lithuania	-	156 111
Government treasury bills of the Republic of Latvia	96 444	-
OECD country government treasury bills	326 637	225 346
Bonds of other issuers and other debt securities	453 102	736 514
	876 183	1 117 971

b. Shares and non-fixed income securities

	2002	2001
	LVL	LVL
Investments in shares listed on the Riga Stock Exchange	50 179	47 445
Long-term investments in Riga Stock Exchange stocks	-	37 500
Shares of US state-owned companies	-	4 175
Shares of US privately-held companies	217 711	152 017
Other investments	2 550	1 856
	270 440	242 993

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c. Pledge securities involved in repo transactions with the Bank of Latvia

	2002	2001
	LVL	
Government treasury bills of the Republic of Latvia	89 700	-
Mortgage bonds of the Latvian Mortgage and Land Bank	100 000	-
	189 700	-

d. Classification of overall investments in securities under International Financial Reporting Standard 39

	2002	2001
	LVL	LVL
Trading securities	944 246	1 119 908
Held-to-maturity securities	329 488	312 467
Available-for-sale securities	-	84 945
	1 273 734	1 517 320

20. PROFIT FROM REVALUATION OF LONG-TERM FINANCIAL INVESTMENTS

	2002	2001
	LVL	LVL
Land and building at 6 Grecinieku Street	78 845	49 035
SIA Ribeksins Baltija B	(4 245)	-
Riga Stock Exchange	-	2 500
	74 600	51 535

21. DERIVATIVE CONTRACTS

	Contract	Fair value	
	amount	Assets	Liabilities
	LVL	LVL	LVL
Foreign currency exchange <i>forward</i> transactions - claims	1 177 716	10 284	-
Foreign currency exchange <i>spot</i> transactions - liabilities	7 273 681	37 201	49 572
		47 485	49 572

22. INVESTMENTS IN ASSOCIATED COMPANIES

Company	Share in equity	2002	2001
	%	LVL	LVL
"Ribeksins Baltija B" Private Limited Company	-	-	29 245
JSC "Capital"	31.24 %	127 111	127 111
		127 111	156 356

In 2000 and 2001, JSC "Capital" made a profit but the investment was not revalued as it was not considered material in the context of the financial statements taken as a whole.

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23. INTANGIBLE ASSETS

	Intangible assets LVL	Pre-payments for intangible assets LVL	TOTAL LVL
Historical cost			
As at 31 December 2001	44 579	-	44 579
Reclassification	114 555	-	114 555
Additions	35 991	31 224	67 215
Disposals	(1 678)	-	(1 678)
As at 31 December 2002	193 447	31 224	224 671
Depreciation			
As at 31 December 2001	(12 602)	-	(12 602)
Reclassification	(19 998)	-	(19 998)
Depreciation	(34 400)	-	(34 400)
Disposals	1 678	-	1 678
As at 31 December 2002	(65 322)	-	(65 322)
Net book value			
As at 31 December 2001	31 977	-	31 977
As at 31 December 2002	128 125	31 224	159 349

24. FIXED ASSETS

	Buildings and land LVL	Cars LVL	Office outfit LVL	Pre- payments for fixed assets LVL	Total LVL
Historical cost					
As at 31 December 2001	1 309 939	41 320	742 670	-	2 093 929
Reclassification	-	-	(114 555)	-	(114 555)
Additions	112 710	73 555	167 167	18 712	372 144
Disposals	-	(12 193)	(129 392)	-	(141 585)
Revaluation	78 845	-	-	-	78 845
As at 31 December 2002	1 501 494	102 682	665 890	18 712	2 288 778
Depreciation					
As at 31 December 2001	(22 877)	(19 861)	(281 418)	-	(324 156)
Reclassification	-	-	19 998	-	19 998
Depreciation	(5 179)	(17 603)	(87 606)	-	(110 388)
Disposals	-	10 164	129 392	-	139 556
As at 31 December 2002	(28 056)	(27 300)	(219 634)	-	(274 990)
Net book value					
As at 31 December 2001	1 287 062	21 459	461 252	-	1 769 773
Net book value					
As at 31 December 2002	1 473 438	75 382	446 256	18 712	2 013 788

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In 2001, a residential building located at 6, Grecinieku Street, Riga, Latvia, was reclassified and shifted from fixed assets to investment property. In 2002, this investment property comprising the building and the land was reappraised at fair market value in line with International Financial Reporting Standards.

25. DEFERRED EXPENSES AND ACCRUED INCOME

	2002	2001
	LVL	LVL
Deferred expenses	145 898	134 267
Accrued interest on loans	99 434	18 844
Accrued interest on interbank loans	6 785	53 071
Accrued interest on securities	10 252	20 980
Other accrued income	5 843	8 467
Specific provisions	(8 072)	(8 456)
	<u>260 140</u>	<u>227 173</u>

26. OTHER ASSETS

	2002	2001
	LVL	LVL
Precious metals	29 767	26 164
Funds placed in guarantee funds	8 056	286 691
Unidentified funds outflow from correspondent accounts	7 070	7 315
Other pre-payments	873	46 519
Property for sale	80	-
Tax overpayment	21	21
Due from brokers	-	113 948
Other accounts receivable	65 823	91 118
Specific provisions	(8 828)	(10 471)
	<u>102 862</u>	<u>561 305</u>

27. DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	2002	2001
	LVL	LVL
Credit institutions incorporated in other countries	3 245 548	116 504
The Bank of Latvia	206 000	-
Credit institutions incorporated in OECD countries	7	-
	<u>3 451 555</u>	<u>116 504</u>

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28. CUSTOMER DEPOSITS

	2002	2001
	LVL	LVL
Current account balances		
Municipalities	13 148	-
Financial institutions	754 154	-
State-owned companies	560 876	102 325
Private companies	8 359 647	9 853 673
Private individuals	583 952	280 024
Public organizations	1 224	6 733
	<u>10 273 001</u>	<u>10 242 755</u>
 Term deposits		
Financial institutions	570 095	-
Private companies	9 363 519	6 912 542
Private individuals	2 213 385	1 263 028
	<u>12 146 999</u>	<u>8 175 570</u>
 Total customer deposits	<u>22 420 000</u>	<u>18 418 325</u>

29. DEFERRED INCOME AND ACCRUED EXPENSES

	2002	2001
	LVL	LVL
Deferred income	102	9 082
Accrued interest payable	213 298	165 409
Other accrued expense	36 142	18 652
	<u>249 542</u>	<u>193 143</u>

30. OTHER LIABILITIES

	2002	2001
	LVL	LVL
Unidentified funds inflow to correspondent accounts	139 149	245 757
Other accounts payable	24 725	180 702
	<u>163 874</u>	<u>426 459</u>

31. SUBORDINATED LIABILITIES

The Bank shareholders' deposits make the largest share of the Bank's subordinated liabilities. Unlike ordinary deposits, subordinated deposits are seven-year fixed term and early withdrawal is only allowed after other creditors claims have been satisfied. In the year 2002, the Bank attracted no new subordinated deposits.

As at 31 December 2002, the amount of subordinated liabilities totaled 967 413 lats.

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Subordinated deposits representing over 10 per cent of the aggregate subordinated liabilities:

Depositor	Currency	Amount in currency	Amount in lats	Interest rate	The inception date of the agreement	Repayment date
Valeri Belokon	USD	375 000	222 750	6 %	29/01/1999	29/01/2007
Vilori Belokon	USD	375 000	222 750	6 %	29/01/1999	29/01/2007

32. PAID-IN SHARE CAPITAL AND RESERVES

	2002		2001	
	Quantity	LVL	Quantity	LVL
Ordinary shares with voting rights	1 174 855	5 874 275	1 174 857	5 874 285
Ordinary shares without voting rights	7	35	5	25
	1 174 862	5 874 310	1 174 862	5 874 310

The Bank's authorized share capital is 5 874 310 lats. Fully paid share capital is 5 874 310, represented by the cumulative number of shares equating 1 174 862. All of the shares are ordinary, each having a par value of 5 lats. 1 174 855 are voting shares. 7 non-voting stocks are registered for the Bank's Board members. Out of the Bank's 100 shareholders, 34 are legal entities and 66 are private individuals.

Reserve capital totaling 545 024 lats is formed from the contributions made by the Bank's shareholders.

Listed below are the shareholders having direct control of more than 10% of the shares in the shareholders' equity:

Valeri Belokon	38,1270 %
Vjacheslav Kramnoj	35,6279 %
Vilori Belokon	11,8768 %

33. CASH AND CASH EQUIVALENTS

a. In accordance with the Financial and capital market commission's requirements

	2002	2001
	LVL	LVL
Cash	488 956	291 267
Balance with the Bank of Latvia	739 165	1 006 985
Due from other credit institutions with up to 3 months remaining maturity	13 588 146	10 733 083
Due to other credit institutions with up to 3 months remaining maturity	(3 245 555)	(116 504)
Specific provisions	(99)	-
	11 570 613	11 914 831

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b. In accordance with International financial reporting standards

	2002	2001
	LVL	LVL
Cash	488 956	291 267
Balance with the Bank of Latvia	739 165	1 006 985
Due from other credit institutions with up to 3 months remaining maturity	13 588 146	10 733 083
Specific provisions	(99)	-
	<u>14 816 168</u>	<u>12 031 335</u>

34. RELATED PARTY TRANSACTIONS

	Loans	Guarantees	Other	Provisions	Net exposure
	LVL	LVL	LVL	LVL	LVL
Alla Tkachenko	5 455	-	3	-	5 458
JSC Baltijas Apdrošināšanas Nams	5 735	-	-	-	5 735
JSC Belokon Holdings	-	14 850	-	-	14 850
E.C.G. Trading S.A.	3 717	-	6 084	-	9 801
Evita Ostrovska	10 318	-	-	-	10 318
Natalja Tkachenko	3 936	-	244	-	4 180
Eugenia Litovchenko	8 732	-	419	-	9 151
Dace Kepite	14 598	-	208	-	14 806
Albert Reznik	6 808	-	570	-	7 378
Enri Studio LLC	65 529	-	615	(19 659)	46 485
Nameks LLC	9 787	-	-	-	9 787
JSC Kimmels Riga	22 996	-	-	-	22 996
Valeri Belokon Publishing House, Ltd.	70 200	-	19 800	(21 060)	68 940
Valeri Belokon	5 374	20 790	6 506	-	32 670
Vilori Belokon	329	-	5 611	-	5 940
	<u>233 514</u>	<u>35 640</u>	<u>40 060</u>	<u>(40 719)</u>	<u>268 495</u>

35. ASSETS AND LIABILITIES UNDER TRUST MANAGEMENT

The Bank has a license issued by the Financial and Capital Market Commission to act as an intermediary in security - based transactions and to maintain security accounts. Therefore customer asset management or trust operations are among the Bank's core activities. The Bank seals trust agreements with private individuals and legal entities, and with the residents and non - residents of the Republic of Latvia. The Bank undertakes to invest customer funds in those financial instruments, which by the trust administrator's judgement will prove to be the most profitable. As at 31 December 2002, the Bank's administered assets stood at LVL 1 067 113. 100 % of this balance was in loans.

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36. OFF-BALANCE SHEET ITEMS

	2002	2001
	LVL	LVL
Warranties and guarantees	222 627	95 062
Commitments to customers	1 142 902	1 512 628
Letters of Credit	5 881	-
Liabilities for opening credit lines	894 588	1 404 591
Liabilities for credit cards	241 576	107 117
Other liabilities	857	920
	<u>1 365 529</u>	<u>1 607 690</u>

37. INFORMATION ON THE BANK'S STAFF

In 2002, the Bank's average staff complement grew by 7 employees from 2001 to reach the figure 124. Remuneration to the Bank's Council and Board members amounted to:

	2002	2001
Council members	5 305	4 236
Board members	26 141	18 456
	<u>31 446</u>	<u>22 692</u>

38. CAPITAL ADEQUACY CALCULATION

The capital adequacy ratio is the Bank's equity proportion compared to the total amount of risk - weighted assets and off - balance sheet items. Capital adequacy reflects the capital level required for hedging against credit risk and the market risk which the Bank's assets and off - balance sheet liabilities are exposed to. Therefore, to comply with the Financial and Capital Market Commission's regulatory requirements, the Bank maintains a capital adequacy ratio of not less than 10%. In accordance with Basle agreement methodology the capital adequacy ratio may not be less than 8% of the Bank's equity. According to the Basle agreement methodology the bank should maintain a capital adequacy ratio of not less than 8%.

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	In line with the Financial and Capital Market Commission's regulatory requirements			Basle agreement methodology		
	Amount LVL	Risk degree	Risk- weighted value LVL	Amount LVL	Risk degree	Risk-weighted value LVL
Assets						
Cash and balances with the central banks	1 228 121	0%	-	1 228 121	0%	-
Due from credit institutions and central banks						
<i>Credit institutions incorporated in OECD countries</i>	12 862 971	20%	2 572 594	12 862 971	20%	2 572 594
<i>Demand claims on LR credit institutions</i>	36 730	20%	7 346	36 730	20%	7 346
<i>Short-term claims on LR credit institutions</i>	118 817	50%	59 409	118 817	20%	23 763
<i>Credit institutions incorporated in non-OECD countries</i>	576 314	100%	576 314	576 314	20%	115 263
<i>Due from credit institutions secured by term deposits</i>	11 880	0%	-	11 880	0%	-
Securities and investments						
<i>Due from the LR central government</i>	98 634	0%	-	98 634	0%	-
<i>Securities issued by credit institutions incorporated in the LR</i>	109 120	50%	54 560	109 120	20%	21 824
<i>Due from OECD county central governments</i>	327 720	0%	-	327 720	0%	-
<i>Other fixed-income securities</i>	350 961	100%	350 961	350 961	100%	350 961
<i>Shares and other non-fixed income securities</i>	270 440	100%	270 440	270 440	100%	270 440
Investments in associated companies	127 111	100%	127 111	127 111	100%	127 111
Customer loans, net value						
<i>Claims secured by fixed-term deposits</i>	4 116 936	0%	-	4 116 936	0%	-
<i>Claims secured by mortgage on real estate and registered with the Land Register</i>	198 911	50%	99 456	198 911	50%	99 456
<i>Claims on borrowers which are not credit institutions, except for lower- risk- degree claims</i>	7 482 873	100%	7 482 873	7 482 873	100%	7 482 873
Prepaid expenses and accrued income	151 741	50%	75 871	151 741	100%	151 741
Intangible assets	-		-	159 349	100%	159 349
Fixed assets	2 013 788	100%	2 013 788	2 013 788	100%	2 013 788
Other assets	102 862	100%	102 862	102 862	100%	102 862
TOTAL			13 793 585			13 499 371
Off-balance sheet items						
Warranties and guarantees						
<i>Secured by deposits</i>	36 111	0%	-	36 111	0%	-
<i>Other</i>	186 516	100%	186 516	186 516	100%	186 516
Liabilities for loan issue						
<i>Secured by deposits</i>	62 790	0%	-	62 790	0%	-
<i>Other</i>	1 073 375	100%	1 073 375	1 073 375	100%	1 073 375
Letters of credit	5 881	0%	-	5 881	0%	-
Other	857	100%	857	857	100%	857
TOTAL			1 260 748			1 260 748
TOTAL risk-weighted value of assets and off-balance sheet liabilities			15 054 333			14 760 119
Paid-in share capital	-	-	5 874 310	-	-	5 874 310
Reserve capital and other reserves	-	-	545 024	-	-	545 024
Accumulated deficit	-	-	(3 656 476)	-	-	(3 656 476)
Profit for the current year	-	-	309 565	-	-	309 565
Intangible assets	-	-	(159 349)	-	-	-
Subordinated liabilities with remaining maturity						
<i>Up to 1 year (including)</i>	55 000	0%	-	55 000	0%	-
<i>1 to 2 years</i>	-	20%	-	-	20%	-
<i>2 to 3 years</i>	269 772	40%	107 909	269 772	40%	107 909
<i>3 to 4 years</i>	137 441	60%	82 465	137 441	60%	82 465
<i>4 to 5 years</i>	475 500	80%	380 400	475 500	80%	380 400
<i>More than 5 years</i>	29 700	100%	29 700	29 700	100%	29 700
TOTAL CAPITAL			3 513 548			3 672 897
CAPITAL ADEQUACY RATIO			23.34%			24.88%