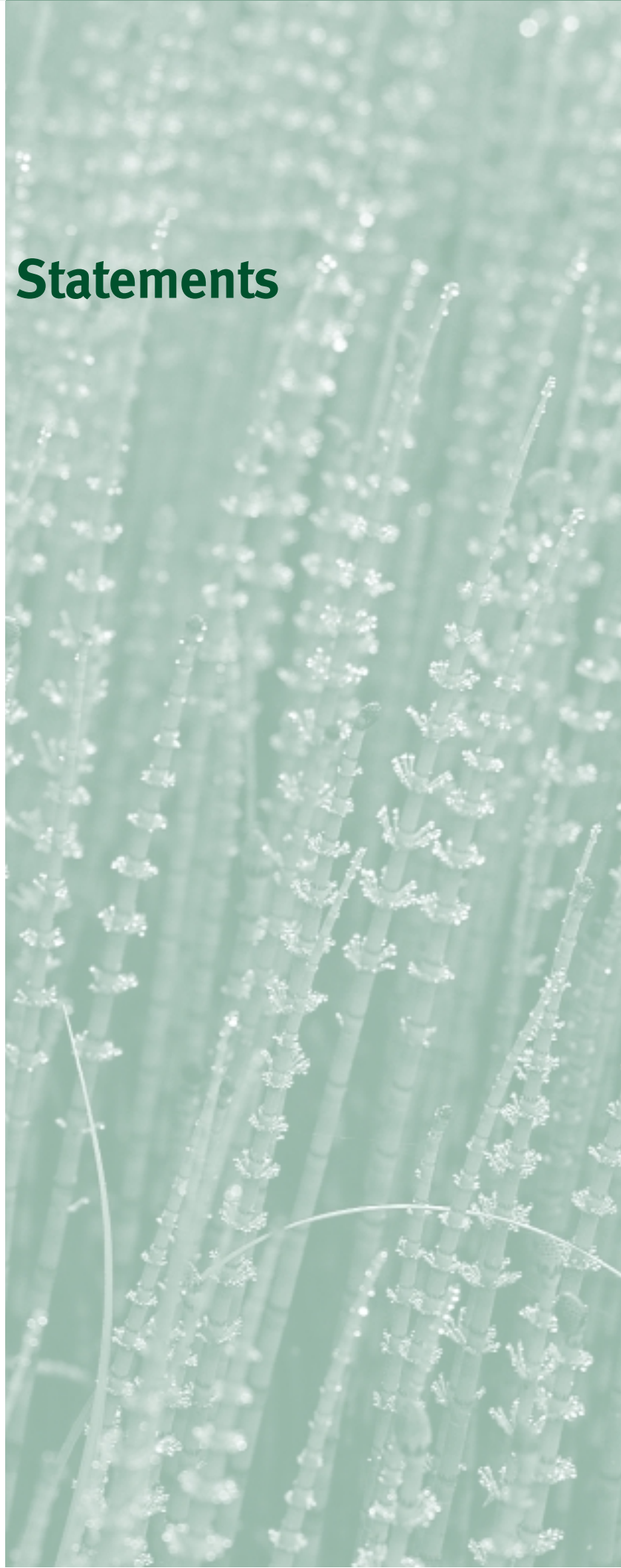


Financial Statements



Supervisory Council and Management Board of the Bank

Council (31 December, 2000)

Māris Kaijaks	Chairman of the Council
Inese Vaidere	Deputy Chairperson of the Council
Uldis Apels	Member of the Council
Linda Kaņepe	Member of the Council
Uldis Osis	Member of the Council
Aivars Strakšas	Member of the Council

During the reporting period Inese Kalniņa, Imants Griķis and Arnis Lagzdiņš resigned from the Council.

Board (31 December, 2000)

Inesis Feiferis	Chairman of the Board, President
Rolands Paņko	First Deputy Chairman of the Board, First Vice-President
Juris Lujāns	Deputy Chairman of the Board, Vice-President
Aija Laicāne	Member of the Board, Chief Accountant
Jēkabs Krieviņš	Member of the Board, Chairman of the Branch Management Unit

Statement of the management responsibilities

Riga

8 March, 2001

Management are responsible for preparing financial statements from the books of prime entry of the Bank that present fairly the state of affairs of the Bank as at the end of the financial year and the results of its activities and cash flows for that year according to the accounting principles set forth in the International Accounting Standards.

Management confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements on pages 25 to 48 for the year 2000. Management also confirm that applicable International Accounting Standards have been used in preparation of the financial statements and that these financial statements have been prepared on a going concern basis and comply with the Bank of Latvia Regulation on Annual Reports of Credit Institutions in all material respects.

Management are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for managing the Bank in compliance with the Law on Credit Institutions and other legislation of the Republic of Latvia and with regulations of the Bank of Latvia.

On behalf of management,



Māris Kaijaks
Chairman of the Council



Inesis Feiferis
Chairman of the Board



Independent Auditors' Report

To the shareholders of the state joint stock company Mortgage and Land Bank of Latvia

We have audited the accompanying balance sheet of the state joint stock company Mortgage and Land Bank of Latvia ("the Bank") as of 31 December 2000 and the related profit and loss account and statements of cash flows and shareholder's equity for the year then ended, as set out on pages 6 to 39*. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended 31 December 1999 were audited by another independent audit firm whose report dated 23 February 2000 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present a true and fair view, in all material respects, of the financial position of the Bank as of 31 December 2000 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

A handwritten signature of 'KPMG' in black ink, written in a cursive style.

KPMG Latvia SIA
Riga, Latvia
8 March, 2001

* - in this publication on pages 25 to 48

Profit and loss account

31 December, 2000

(all amounts in thousands of Lats)

	Notes	2000	1999
Interest income	4	6,666	4,733
Interest expense	5	(2,654)	(1,763)
Net interest income	6	4,012	2,970
Fees and commission income	7	1,136	827
Fees and commission expense	8	(78)	(82)
Result from dealing with securities and foreign exchange	9	301	207
Other operating income	10	1,266	1,618
Operating income		6,637	5,540
Staff costs	11	(2,501)	(1,920)
Administrative expenses	12	(1,788)	(1,459)
Depreciation	21	(591)	(499)
Operating expenses		(4,880)	(3,878)
Provision for doubtful debts	13	(732)	(444)
Operating profit		1,025	1,218
Tax expense	14	(302)	(320)
Net profit for the period		723	898

The notes on pages 30 to 48 are an integral part of these financial statements.

These financial statements on pages 25 to 48 have been accepted by the Board of Directors on 28 February, 2001 and approved by the Shareholders' Meeting on 8 March, 2001 and are signed by:



Māris Kaijaks
Chairman of the Council



Inesis Feiferis
Chairman of the Board

Balance sheet

(all amounts in thousands of Lats)

31 December, 2000

	Notes	2000	1999
Assets			
Cash and balances with Central Bank	15	4,468	4,450
Due from credit institutions	16	9,921	5,578
<i>on demand</i>		2,561	3,769
<i>other</i>		7,360	1,809
Loans to customers	17	53,351	33,483
<i>loans</i>		41,540	21,203
<i>transit loans</i>		11,811	12,280
Fixed income securities	18	1,352	1,200
Equity securities	19	54	55
Investments in subsidiaries and associated entities	20	7	7
Fixed assets	21	4,953	4,383
Other assets	22	723	574
Prepayments and accrued income	23	638	433
Total assets		75,467	50,163

The notes on pages 30 to 48 are an integral part of these financial statements.

Balance sheet

(all amounts in thousands of Lats)

31 December, 2000

	Notes	2000	1999
Liabilities			
Due to credit institutions		3,770	3
<i>on demand</i>		297	3
<i>long term</i>	24	3,473	-
Customer deposits	25	42,562	25,417
<i>current</i>		10,694	9,035
<i>term deposits</i>		31,868	16,382
Transit funds	26	14,854	14,738
<i>current</i>		1,196	1,123
<i>long term</i>		13,658	13,615
Mortgage bonds	27	4,284	469
Other liabilities	28	465	974
Provisions and accrued expense	29	1,338	952
Total liabilities		67,273	42,553
Shareholder's equity		8,194	7,610
<i>Share capital</i>	30	4,746	4,746
<i>Reserve capital</i>	31	3,106	2,493
<i>General reserve</i>	32	232	-
<i>Retained earnings</i>		110	371
Total liabilities and shareholder's equity		75,467	50,163
Off balance sheet liabilities			
Contingent liabilities	36	268	49
Financial commitments	36	4,873	2,771
Foreign exchange transactions	36	(2)	-

The notes on pages 30 to 48 are an integral part of these financial statements.

These financial statements on pages 25 to 48 have been accepted by the Board of Directors on 28 February, 2001 and approved by the Shareholders' Meeting on 8 March, 2001 and are signed by:



Māris Kaijaks
Chairman of the Council



Inesis Feiferis
Chairman of the Board

Statement of changes in shareholders' equity

31 December, 2000

(all amounts in thousands of Lats)

	Share capital	Statutory reserves	General reserve	Retained earnings	Total equity
Balance as at 31 December, 1998	4,746	1,966	-	267	6,979
Distribution of profit	-	-	-	(267)	(267)
Profit for the period	-	-	-	898	898
Proposed transfer to reserves from current year's profit	-	527	-	(527)	-
Balance as at 31 December, 1999	4,746	2,493	-	371	7,610
Distribution of profit	-	-	-	(139)	(139)
Transfer to general reserve	-	-	232	(232)	-
Profit for the period	-	-	-	723	723
Proposed transfer to reserves from current year's profit	-	613	-	(613)	-
Balance as at 31 December, 2000	4,746	3,106	232	110	8,194

The notes on 30 to 48 are an integral part of these financial statements.

Cash flow statement

(all amounts in thousands of Lats)

31 December, 2000

	Notes	2000	1999
Cash flow from operating activities			
Profit before taxation		1,025	1,218
Depreciation		591	499
Reclassification of fixed assets		2	45
Increase in provision for doubtful debts		666	444
(Profit) / loss on dealing with securities and foreign exchange		(3)	18
(Profit) / loss on a sale of fixed assets		25	(5)
Increase / (decrease) in provisions and accrued expense		242	(54)
Increase in prepayments and accrued income		(288)	(254)
(Increase) / decrease in other assets		(149)	123
Decrease in other liabilities		(509)	(305)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		1,602	1,729
Increase in securities		(151)	(667)
Increase in balances due from credit institutions		(1,011)	(40)
Increase in balances due to credit institutions		(20,452)	(10,729)
Increase in loans to customers		3,473	-
Increase in customer deposits		17,145	13,659
Increase in transit funds		116	1,250
Increase in mortgage bonds issued		3,815	469
Increase in cash and cash equivalents from operating activities		2,935	3,942
Taxation paid		(158)	(59)
Cash flow from investing activities			
Fixed assets additions		(1,197)	(667)
Proceeds from fixed assets disposal		9	20
Decrease in cash and cash equivalents from investing activities		(1,188)	(647)
Cash flow from financing activities			
Distribution of profit		(139)	(267)
Increase in cash and cash equivalents from financing activities		(139)	(267)
Increase in cash and cash equivalents		3,052	4,698
Cash and cash equivalents at the beginning of the period		10,020	5,340
(Profit) / loss on dealing with securities and foreign exchange		3	(18)
Cash and cash equivalents at the end of the period	33	13,075	10,020

The notes on 30 to 48 are an integral part of these financial statements.

Notes to the financial statements

(all amounts in thousands of Lats)

31 December, 2000

1. GENERAL INFORMATION

The Mortgage and Land Bank of Latvia was established as a state-owned commercial bank on 19 March 1993 by the Latvian government based on the Resolution No. 140 adopted by the Cabinet of Ministers. The Bank was registered with the Enterprise Register of the Republic of Latvia on 3 June 1993.

The Bank has obtained the following licences (permits):

- the Bank of Latvia on 28 May 1993 issued a licence No. 118 for banking operations;
- the Ministry of Finance of the Republic of Latvia on 21 November 1995 issued a licence No. 14 for intermediary activities with securities and holding of securities accounts;
- the State Land Service of the Republic of Latvia on 10 April 1996 issued a licence No. 2 for the price-fixing and evaluation of real estate;
- the Ministry of Economy on 21 July 1996 issued a special permit (licence) No. S25/3 for the trade with privatisation vouchers, as well as for opening privatisation voucher accounts in the Bank;
- the Bank of Latvia on 16 August 1996 issued a licence No. 87 for effecting investment services;
- the Securities Commission of the Republic of Latvia on 13 January 1999 issued an emission certificate No. 125 for rights to issue mortgage bonds of 1 million lats;
- the Securities Commission of the Republic of Latvia on 28 March 2000 issued an emission certificate No. 141 for rights to issue mortgage bonds of 3 million lats;
- the Securities Commission of the Republic of Latvia on 11 April 2000 issued an emission certificate No. 143 for rights to issue mortgage bonds of 1 million lats;
- the Securities Commission of the Republic of Latvia on 21 November 2000 issued an emission certificate No. 156 for rights to issue mortgage bonds of 3 million lats.

The operations of the Bank are regulated by the law On Credit Institutions and other effective laws of the Republic of Latvia, its Articles of Association, the instructions of the Bank of Latvia, as well as the decrees and regulations of the Cabinet of Ministers of the Republic of Latvia. The Bank is under the jurisdiction of the Ministry of Finance of the Republic of Latvia that represents the interests of the shareholder on behalf of the Cabinet of Ministers and holds 100% of the Bank's shares.

In accordance with the law On Mortgage Bonds that was passed by the Saeima (Parliament) on 10 September 1998, the Bank has the right to issue mortgage bonds. The Mortgage Bank is the only bank in Latvia that issues mortgage bonds. In 2000, the Bank considerably increased the portfolio of mortgage loans and issued mortgage bonds of 3,820 thousand lats. Thus at the year-end the Bank issued mortgage bonds in the total amount of 4,350 thousand lats.

The Bank has 26 branches, one in each district centre, as well as several sub-branches in various Latvian regions providing its services to customers in the whole territory of Latvia. The Bank continuously improves and updates its branches. In 2000 Jelgava and Bauska branches moved to new premises. The head office of the Bank is located at 4 Dome Square, Riga.

Bank's operations both in the head office and branches are performed using the software MIDAS KAPITI INTERNATIONAL EQUATION.

At the end of 2000 the Bank started to offer its clients the international Maestro and Eurocard/Mastercard payment cards.

On 22 June 1999 the Cabinet of Ministers considered the development concept of the Mortgage Bank for the years 1999 through 2005 and approved the basic development lines of the Bank:

- lending to small and medium-size enterprises;
- mortgage lending and issue of mortgage bonds with the aim of refinancing mortgage loans.

In realisation of its strategic goals, in 2000 the Bank borrowed from the German Development Bank (Kreditanstalt für Wiederaufbau) a loan of 10 million EURO for the purposes of crediting small and medium-size enterprises, as well as continued to service three World Bank credit lines and a credit line within the framework of the Energy Efficiency Fund financed by the European Union.

The Bank offered the following services in 2000:

- issue of mortgage loans;
- lending;
- servicing of current accounts of private and legal persons, and effecting of cash transactions in lats and foreign currencies;
- issuance of international payment cards;
- purchase and sale of foreign currencies;
- servicing of land and housing privatisation transactions;
- assessment of real estate, transactions with real estate;
- servicing of privatisation voucher accounts, providing for the privatisation process of enterprises;
- servicing of securities accounts, transactions with securities at the Riga Stock Exchange and over the counter.

The state-owned joint stock company "Mortgage and Land Bank of Latvia" is a member of the following institutions in the Republic of Latvia:

- the Association of Latvian Commercial Banks;
- the Riga Stock Exchange;
- the Central Depository of Latvia;
- the Chamber of Commerce and Industry of Latvia;
- the Farmers' Federation of Latvia.

The state-owned joint stock company "Mortgage and Land Bank of Latvia" is a member of the following international institutions:

- the International Union for Housing Finance;
- the Mortgage Bankers Association of America.

In 2000, the Bank continued active co-operation with the European Mortgage Federation, the Union of German Mortgage Banks (Verband Deutscher Hypothekenbanken) and the Union of East and Central European States for Development of Mortgage Lending System for Economies in Transition.

2. ACCOUNTING POLICIES

The Bank's accounting is carried out in accordance with the legislation of the Republic of Latvia, including procedures for the credit institutions of Latvia. The financial year coincides with the calendar year. These financial statements have been prepared on the basis of the underlying accounting data.

(1) Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with International Accounting Standards (IAS) and the Bank of Latvia Regulations on Annual Reports of Credit Institutions.

(2) Foreign currency translation

All assets and liabilities, including off balance sheet claims and liabilities, denominated in foreign currencies are translated into Latvian lats (LVL) using the period end rates of exchange published by the Bank of Latvia. Gains and losses arising from this translation are included in the profit and loss account for the period. The applicable rates for the principal currencies held by the Bank were as follows:

31 December, 2000	31 December, 1999
1 USD = LVL 0.6130000	1 USD = LVL 0.5830000
1 DEM = LVL 0.2914580	1 DEM = LVL 0.3003920
1 GBP = LVL 0.9170000	1 GBP = LVL 0.9420000
1 SEK = LVL 0.0642000	1 SEK = LVL 0.0685000
1 FIM = LVL 0.0958742	1 FIM = LVL 0.0988131
1 DKK = LVL 0.0763000	1 DKK = LVL 0.0790000
1 EUR = LVL 0.5700420	1 EUR = LVL 0.5875160

Transactions denominated in foreign currency are recorded at the rate ruling on the date of the transaction. Exchange differences arising from the settlement in lats of transactions denominated in foreign currency are included in the results of operations at the time of settlement using the exchange rate ruling on that date.

(3) Income recognition

All significant income and expense categories, including interest income and expense, are recognised on an accrual basis. Accrued interest income is calculated for standard loans and watch loans. Fees and commissions are accounted for when collected or incurred. Income and expense that refer to the accounting period are reflected in the profit and loss account regardless of the date of receipt or payment.

(4) Investments

I Investments in shares and other securities

Investments are shown at the Bank's balance sheet at cost, less any provisions where, in the opinion of management, a diminution in value has occurred which is not considered temporary.

Investments in fixed income securities, including the Treasury bills of the Republic of Latvia, are reflected in the balance sheet at cost. The discount on nominal value at purchase of treasury bills is amortised to interest income over the period from purchase to maturity.

In case the securities are sold before their maturity, the profit and loss statement includes the difference between the purchase price of the debt securities, the amount of accrued income or accrued expenses and the proceeds.

II Trade investments in shares and other securities

Trading securities are originally shown in balance sheet at cost. Securities quoted on Riga Stock Exchange are marked to market on a regular basis. Income or loss arising in the result of trading with these securities are taken to profit and loss account.

III Shares with the right of repurchase

Shares with the right to repurchase are shown in the balance sheet based at a value approved by agreement with the Bank and customer.

(5) Loans

Loans are stated in the balance sheet at the amount of the principal outstanding, less any provision for bad and doubtful loans. Provisions for bad and doubtful debts are made monthly based on regular loan reviews. Provisions and releases from provisions during the period are reflected in the profit and loss statement.

Specific provisions

Loans are classified into five categories according to Bank of Latvia requirements. Loans are classified on the basis of delay of principal or interest repayment, compliance with other conditions of the agreement, and financial position of the borrower. These categories are as follows:

<i>Category</i>	<i>Percentage provision</i>
Standard	0%
Watch	10%
Substandard	30%
Doubtful	60%
Lost	100%

If, in the opinion of management, the possibility of loan recovery is estimated as nil then the loan is classified as lost. Collateral which is foreclosed as a result of the borrowers default is stated in the balance sheet at the lower of net realisable value or foreclosure value (being the sum of outstanding principal and interest at the day of foreclosure). Interest income is accrued only for standard and watch category loans.

General provisions

During 2000 the Bank changed the level of provisions for standard loans. At the end of accounting period general provisions are created at 0.5% of standard loans (in 1999: 0.75% of standard loans exceeding 25 thousand lats and at 1 % of standard loans below 25 thousand lats). Level of general provisions was decreased as result of more conservative approach applied for valuation of loans during recognition of specific provisions. Applying level of general provisions effective during prior period, the Bank had to recognize additional general provisions in amount of 189 thousand lats as at 31 December 2000. The general provisions relate to those losses that, although not yet specifically identified, are estimated from experience to be present at the end of year in the Bank's portfolio of loans.

Sector provisions

In addition to general provisions, the Bank has created sector provisions where appropriate. As at 31 December, 2000 and 1999 sector provisions are recognised at 0.35% of standard loans in the agricultural sector.

(6) Fixed assets and depreciation

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis. The annual rates of fixed asset depreciation are:

Buildings	1%	p.a.
Furniture and fittings	10%	p.a.
Computers and equipment	10 – 33%	p.a.
Computer software	20 – 25%	p.a.
Motor vehicles	20%	p.a.
Leasehold improvements		over the life time of the lease agreements

Gains and losses on disposals of fixed assets are recognised with in the profit and loss account of the period of disposal.

Repairs and maintenance costs are charged to the profit and loss account as incurred.

Capital repairs of fixed assets are added to the fixed assets at cost.

(7) Taxation

Corporate income tax is calculated according to Latvian tax legislation.

In these financial statements income tax expense are recognised on the basis of Latvian tax legislation and International Accounting Standard 12. Deferred taxation is provided using the liability method on all temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes.

(8) Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of management, fair values of financial assets and liabilities differ materially from their book value, such fair values are separately disclosed in the notes to the financial statements.

(9) Money in transit

As at year end Money in transit items have been included in the corresponding accounts of the Bank or its customers.

(10) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, deposits with other credit institutions with a remaining maturity of 3 months or less, as well as fixed income securities with a remaining maturity of 3 months or less.

(11) Mortgage bonds coverage register

The coverage register of mortgage bonds at the Bank is maintained in accordance with the legislation of the Republic of Latvia, including regulative documents covering mortgage transactions.

The Bank manages mortgage claims included in the coverage register of mortgage bonds according to their remaining value, as well as substitute coverage separately from other assets.

The mortgage claims included in the coverage register of mortgage bonds according to their remaining value are used to ensure meeting only those liabilities that result from the issue of mortgage bonds.

Mortgage bonds in circulation according to their total face value are covered with mortgage loans of the same total amount according to their remaining value. The total interest expenses of mortgage bonds are covered with the total interest receipts from mortgage loans of the same amount.

The entries of the coverage register of mortgage bonds are based on correctly recorded accountancy and financial documents of the Bank containing information that complies with the provisions of regulative acts.

(12) Capital Adequacy

As of 1 July 2000 new regulations of the Central Bank of Latvia On capital adequacy calculations became valid to provide a different methodology than used previously. In order to be able to compare capital adequacy ratios in accordance with the central Bank of Latvia requirements, the capital adequacy ratios for 1999 have been recalculated and shown in accordance with the new requirements.

3. RISK MANAGEMENT

Within the framework of internal control system the Bank has developed and follows the Risk Management Policy or fundamental principles which define:

- 1) general guidelines observed by Bank in its activities aimed at decreasing of all types of risks which might lead to losses;
- 2) description of risk transactions and other risks the Bank is exposed;
- 3) general daily control of risk transactions and management of transactions related risks.

The Risk Management Policy describes and determines the aggregate of measures by means of what the possibility to suffer losses is substantially minimised in the event the invested or receivable resources are not repaid in due time and amount or Bank would suffer other losses. The Board and Council of Bank have approved the Risk Management Policy as well as other policies related to the risk management referred to herein. The Risk Management Committee heads the Risk Management System, but the structural units of the respective sectors are responsible for the application of system. The Risk Management System controlled by the Internal Audit Division on a regular basis is being continuously improved pursuant to the development of Bank and activities in the financial markets.

Interest Rate and Foreign Currency Risk

The Bank is exposed to the interest rate risk originating from the possible negative changes to the interest payments receivable for Bank's domestic assets and payable for foreign and domestic liabilities. The control and management of this liquidity risk is defined in the Liquidity Management Policy elaborated by the Bank and including the risk of the Bank's ability to redeem legally valid claims of its customers and creditors. The Budget and Finance Committee of the Bank co-ordinates the activities of structural units related to the management of interest rate risk and plans the activities of Bank in this respect. The Resources and Financial Analysis Department performs the daily control of interest rate risks related to the Bank's activities. For the purposes of control and management of foreign currency risk the Bank has developed the Currency Risk Management Policy. The Assets Liabilities Management Committee provides management to avoid losses incurred by negative changes to the currency exchange rates. The Resources and Financial Analysis Department constantly supervises whether the established restrictions on foreign currency positions are observed.

Credit Risk

Management and control of credit risk is defined in the Credit Policy of Bank. Credit risk presents the risk of debtors not meeting their liabilities in due time or full amount. The Board of the Bank, the Credit Committee of Centre Branch and Regional Credit Committees manage credit risk, but the Loans Department monitors the related procedures and limits continuously. The Resources and Financial Analysis Department is responsible for the management and control of transaction risk, partner risk and credit risk of the Bank in relation to money market transactions with partner banks and other customers, whereas the Financial Market Transactions Department is responsible for the management and control of the mentioned risks in relation to FX market transactions.

Other Operational Risks

There are also other risks identified in the operation of Bank which may incur unexpected losses. The reasons of such risks may be, for example, human mistake or fraud, disturbances in the operation of information systems, insufficient internal control and procedures, etc. The Risk Management Committee, Personnel Management Committee and Information Systems Management Committee manage, and the respective structural units of the Bank perform, actual supervision and control of the aforementioned risks. The Bank maintains the resources necessary for the guaranteeing of operational continuity.

4. INTEREST INCOME	2000	1999
On placements with and loans to other banks	318	180
On loans to customers	6,149	4,397
On investments in securities	199	156
	6,666	4,733

5. INTEREST EXPENSE	2000	1999
Credit institutions	106	2
Current and deposit accounts	1,586	864
Transit funds	795	862
Mortgage bonds issue	167	35
	2,654	1,763

6. NET INCOME FROM SIGNIFICANT ASSETS

	2000			1999		
	Monthly Average Balance	Financial income/ expense	Average rate	Monthly Average balance	Financial income/ expense	Average rate
Return on assets						
Due from credit institutions	5,900	318	5.4%	4,297	180	4.2%
Loans to customers	44,603	6,149	13.8%	29,464	4,397	14.9%
Securities' portfolio	2,458	199	8.1%	1,856	156	8.4%
Interest income		6,666			4,733	
Expense on liabilities						
Customer deposits and due to credit institutions	34,249	1,692	4.9%	20,001	866	4.3%
Mortgage bonds issued by the Bank	2,037	167	8.2%	401	35	8.7%
Transit funds	14,669	795	5.4%	13,847	862	6.2%
Interest expense		2,654			1,763	
Net interest income		4,012			2,970	

7. FEES AND COMMISSION INCOME	2000	1999
On transactions with privatisation certificates	143	130
Other commission income	993	697
	1,136	827

8. FEES AND COMMISSION EXPENSE	2000	1999
On transactions with privatisation certificates	1	1
Other commission expense	77	81
	78	82

9. RESULT FROM DEALING WITH SECURITIES AND FOREIGN EXCHANGE	2000	1999
Profit on dealing in foreign exchange	286	229
Loss / profit on foreign currency revaluation	3	(18)
Profit on dealing with securities	12	8
Loss / profit on securities revaluation	-	(12)
	301	207

10. OTHER OPERATING INCOME	2000	1999
Property privatisation fees	505	764
Property valuation fees	85	59
Income from recovery of the State Property		
Privatisation Fund loans	202	381
Rental fees	65	43
Penalty fees received on overdue loan repayments	328	169
Other	81	202
	1,266	1,618

11. STAFF COSTS	2000	1999
Remuneration to the Council	28	8
Remuneration to staff	1,942	1,477
Social tax expense	531	435
	2,501	1,920

There were on average 357 (1999: 328) staff members employed by the Bank during the year.

12. ADMINISTRATIVE EXPENSE	2000	1999
Training and other staff costs	133	80
Equipment and premises maintenance costs	537	447
Information system and communication expenses	338	287
Advertising and public relations	317	180
Professional services	119	94
Property tax	43	8
Other expenses	301	363
	1,788	1,459

13. PROVISION FOR DOUBTFUL DEBTS	2000	1999
Specific provisions for bad and doubtful loans	737	276
Specific provisions for accrued interest income receivable	171	121
Other specific provisions	-	24
General provisions for bad and doubtful loans	131	160
Release from specific provisions for bad and doubtful loans	(73)	(110)
Release from specific provisions on accrued interest income receivable	(80)	(10)
Release from other specific provisions	-	(17)
Release from general provisions for bad and doubtful loans	(154)	-
	732	444

14. TAX EXPENSE	2000	1999
Corporate income tax	99	308
Provision for deferred taxation	203	12
	302	320

Included in provisions and accrued expense as 31 December 2000 is a liability for deferred taxation amounting to LVL 448 thousand.

	2000	1999
Profit before tax from financial statements	1,025	1,218
Expected income tax expense (25%)	256	305
Tax effect of:		
Permanent disallowable expense	46	15
Tax expense for the year	302	320

15. CASH AND BALANCES WITH CENTRAL BANK

	2000	1999
Cash	2,225	1,763
Balances with the Bank of Latvia	2,243	2,687
	4,468	4,450

Balances with the Bank of Latvia represent funds held on the Bank's clearing account.

In accordance with the regulations set by the Bank of Latvia, the Bank's average monthly cash and correspondent account total balance should not be less than the amount of mandatory reserve which is calculated by discounting the average of certain liabilities over a monthly period. The Bank was in compliance with this regulation during 2000 and 1999.

16. DUE FROM CREDIT INSTITUTIONS

	2000	1999
Due from credit institutions registered in OECD countries	3,499	1,831
Due from credit institutions registered in Latvia	6,421	3,747
Due from credit institutions registered in CIS countries	5	5
	9,925	5,583
Specific provisions	(4)	(5)
	9,921	5,578

The Bank has correspondent accounts with 19 banks (1999: 15 banks).

Analysis of balances due from credit institutions by maturity profile:

	OECD	Latvia	Other	Total
Correspondent accounts	455	155	5	615
Overnight deposits	1,205	745	-	1,950
Total demand deposits	1,660	900	5	2,565
Less provision	-	-	(4)	(4)
Net demand deposits	1,660	900	1	2,561
Term deposits with credit institutions:				
due within 1 month	1,839	4,500	-	6,339
due within 1 – 3 months	-	-	-	-
due within 3 – 6 months	-	56	-	56
due within 6 – 12 months	-	123	-	123
due within 1 – 5 years	-	842	-	842
Total term deposits	1,839	5,521	-	7,360
Total net due from credit institutions	3,499	6,421	1	9,921

17. LOANS TO CUSTOMERS

	2000	1999
(a) Loans from the Bank's general funds include:		
Municipalities	182	222
State owned companies	5	20
Private companies	27,119	14,384
Individuals	14,333	6,594
Management / staff	728	420
Public and religious institutions	30	51
	42,397	21,691
General provisions for doubtful loans	(197)	(174)
Specific provisions for doubtful loans	(660)	(314)
	41,540	21,203

(b) Loans from the transit funds include:

	2000	1999
Municipalities	413	400
Private companies	11,992	12,259
	12,405	12,659
General provisions for doubtful transit loans	(52)	(101)
Sector provisions for doubtful transit loans	(50)	(45)
Specific provisions for doubtful transit loans	(492)	(233)
	11,811	12,280

Under the Subsidiary Loan agreement between the Bank and the Ministry of Finance, the Bank assumes credit risk related to transit loans disbursed. Therefore, special, sector and general provisions are created for the transit loan portfolio by the Bank.

(c) Analysis of loans by type

	2000	1999
Commercial loans	14,639	9,185
Consumer loans	4,539	2,868
Mortgage loans	19,494	8,836
Agricultural Development loans	9,992	11,606
Rural Development loans	2,114	1,205
Other loans	4,024	650
Total	54,802	34,350

(d) Geographical segmentation of loans

During 2000 and 1999 the Bank issued loans only to individuals and companies based in Latvia.

(e) Analysis of movement in provisions for doubtful loans

	2000	1999
As at 1 January	867	556
Increase in provisions	868	436
Release from provisions	(227)	(110)
Adjustment (foreign exchange fluctuations)	12	-
Write-off	(69)	(15)
As at 31 December	1,451	867

(f) Non accrual loans

As at 31 December 2000, there are loans of 2,255 thousand lats (1999: 1,325 thousand lats) on which interest is not being accrued. These are loans classified in risk categories below watch.

(g) Breakdown of outstanding loans to customers by maturity profile:

	2000
Overdue	989
Falling due within:	
1 month	1,744
1 – 3 months	3,451
3 – 6 months	3,189
6 – 12 months	5,618
1 – 5 years	28,915
more than 5 years	10,896
Total gross loans	54,802
Less provision	(1,451)
Total net loans to customers	53,351

18. FIXED INCOME SECURITIES

	2000	1999
Latvian government securities	1,070	1,200
Certificates of deposits of credit institutions	282	-
	1,352	1,200

Maturity profile

Fixed income securities maturity profile:	2000
1 month	220
1 – 3 months	-
3 – 6 months	617
6 – 12 months	282
1 – 5 years	233
more than 5 years	-
Total fixed income securities	1,352

In 2000 the Latvian government securities and debt securities of Latvian credit institutions were held for investment purposes. The face value of these securities at 31 December, 2000 was LVL 1,368,500, including the total face value of LVL 1,068,500 of Latvian government securities and LVL 300,000 of debt securities of Latvian credit institutions.

19. EQUITY SECURITIES

Company	Shareholding	2000	1999
Latvian Central Depository	10.8%	20	20
Riga Stock Exchange	3.5%	25	25
Shares quoted on Riga Stock Exchange		9	10
		54	55

20. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES

Company	Shareholding	2000	1999
SIA Hipotēku bankas nekustamā īpašuma aģentūra	99%	5	5
SIA Skultes Kokosta	20%	2	2
		7	7

SIA "Hipotēku bankas nekustamā īpašuma aģentūra" (Real Estate Agency of the Mortgage Bank) was founded on 24 December, 1998 with the purpose of improving the entrepreneurship of the founder by carrying out operations with real estate, its management, rent, lease and other related activities. The company was registered with the Enterprise Register of the Republic of Latvia on 14 January, 1999.

SIA "Hipotēku bankas nekustamā īpašuma aģentūra" activities for the year 2000 were insignificant for consolidation purposes.

21. FIXED ASSETS

	Land and Buildings	Vehicles	Machinery and Equipment	Leasehold Improvements	Total
Cost					
At 1 January, 2000	2,728	495	2,162	531	5,916
Additions	193	104	815	85	1,197
Disposals	-	(41)	(70)	-	(111)
Reclassification of fixed assets	(2)	-	-	-	(2)
At 31 December, 2000	2,919	558	2,907	616	7,000
Depreciation					
At 1 January, 2000	74	243	878	338	1,533
Charge for the year	23	81	390	97	591
Disposals	-	(27)	(50)	-	(77)
At 31 December, 2000	97	297	1,218	435	2,047
Net Book Value as at 31 December, 2000	2,822	261	1,689	181	4,953
Cost					
At 1 January, 1999	2,619	450	1,873	486	5,428
Reclassification of fixed assets	(45)	-	-	-	(45)
Additions	160	113	349	45	667
Disposals	(6)	(68)	(60)	-	(134)
At 31 December, 1999	2,728	495	2,162	531	5,916
Depreciation					
At 1 January, 1999	58	223	614	258	1,153
Charge for the year	22	79	318	80	499
Disposals	(6)	(59)	(54)	-	(119)
At 31 December, 1999	74	243	878	338	1,533
Net Book Value At 31 December, 1999	2,654	252	1,284	193	4,383

Assets of 2 thousand lats were reclassified from fixed assets to other assets. This relates to land in Rēzekne kept by Bank as asset subject to disposal.

22. OTHER ASSETS

	2000	1999
Property held for resale	47	45
Prepayments	6	8
Overpayment of corporate income tax	155	-
Other assets	515	521
	723	574

Other assets include the building on Jēkaba street 6/8 donated by the government as contribution to share capital. Properties held for resale include land in Rēzekne, and buildings in Liepāja and Lielbrīzule. The Bank does not use these properties for its direct business purposes.

23. PREPAYMENTS AND ACCRUED INCOME

	2000	1999
Prepayments	146	21
Accrued interest on privatisation operations	37	24
Accrued interest on loans	627	505
Accrued interest on interbank loans	14	3
Accrued interest on Latvian Government bonds	18	34
Other accrued income	41	8
	883	595
Special provisions on accrued interest on loans	(245)	(162)
	638	433

24. DUE TO CREDIT INSTITUTIONS - LONG-TERM LIABILITIES**2000** **1999****Due to credit institutions - long-term liabilities****3,473** **-**

On 17 January, 2000 to implement the Small and Medium-sized Enterprises Development Lending Project approved by the Cabinet of Ministers in November, 1999, the Mortgage Bank concluded the Loan Agreement with the German Development Bank (Kreditanstalt für Wiederaufbau (KfW)) for EUR 5 mln. On August 28, 2000 a supplement to the KfW Loan Agreement for an additional loan amounting to EUR 5mln was signed. The maturity of the loans are ten years and the principal outstanding at 31 December 2000 was EUR 6,092 thousand (LVL 3,473 thousand). As at 31 December, 2000 the interest rate for the loans was 6 months EURIBOR rate + 1.90% (or 6.9751%).

25. CUSTOMER DEPOSITS**2000** **1999****Current accounts:**

Central government	68	14
Municipalities	879	1,189
State owned companies	608	1,517
Private financial institutions	47	37
Private companies	4,599	3,483
Individuals	4,245	2,551
Public and religious organisations	248	244
	10,694	9,035

Term deposits:

Municipalities	2,776	75
State owned companies	3,540	3,200
Private financial institutions	1,436	163
Private companies	1,309	1,839
Individuals	22,744	11,055
Public and religious organisations	63	50
	31,868	16,382

Total deposits**42,562** **25,417**

99.4% of the deposits with the Bank are the Bank's liabilities to residents of Latvia, 0.5% are liabilities to OECD residents, and the remaining 0.1% of the deposits are liabilities to non-OECD residents.

Maturity profile**2000****Total current accounts** **10,694****Term deposits due:**

- up to 1 month	2,697
- from 1 to 3 months	4,265
- from 3 to 6 months	6,793
- from 6 to 12 months	11,099
- from 1 to 5 years	3,814
- more than 5 years	3,200

Total term deposits **31,868****Total deposits** **42,562**

26. TRANSIT FUNDS

	2000	1999
(a) Long term borrowings repayable within one year after balance sheet date		
Agricultural Development Project	704	622
Enterprises and Financial Sector Restructuring Project	492	501
	1,196	1,123
(b) Long term borrowings		
Agricultural Development Project	10,082	10,264
Enterprises and Financial Sector Restructuring Project	843	1,314
Rural Development Project	2,163	1,509
PHARE Programme "Energy Efficiency Fund"	570	528
	13,658	13,615
Total transit funds	14,854	14,738

The total amount of the Bank's transit funds as at 31 December 2000 and 1999 consists of resources from the World Bank (96% of the total amount) and European Union schemes (4% of the total amount). The major sources of transit funds are the following credit lines:

On 25 September, 1995 a Subsidiary Loan Agreement was signed on the credit line that was opened to the Bank within the framework of the Agricultural Development Project of Latvia. The Bank has to repay the credit line within 12 years making the first repayment on 21 August 1998 and the last one – on 21 February 2011. The price of resources of the credit line as at 31 December 2000 amounted to 6.71% per annum for resources in lats (1999: 7.63%) and 5.71 % per annum for USD resources (1999: 6.63%).

On 5 May, 1998 the Bank signed a Subsidiary Loan Agreement on the credit line granted to the Bank within framework of the Enterprises and Financial Sector Restructuring Project. The Bank has to repay the credit line within 7 years making the last payment on 31 March 2005. The weighted average price of these resources as at 31 December 2000 amounted to 7.02% per annum for resources in lats (1999: 7.93%) and 7.98% per annum for USD resources (1999: 6.65%). Within the framework of this credit line, the Bank has been granted resources worth 172 thousand lats for 14 years with the annual interest rate of 5.87% at 31 December 2000 for the Mortgage Lending Research Project (1999: 6.69%).

On 25 November, 1998 the Bank signed a Subsidiary Loan Agreement on the credit line granted to the Bank within the framework of the Rural Development Project. The purpose of the credit line is lending to small and medium-sized enterprises in the countryside. The Bank has to repay the credit line within 12 years making the first repayment on 5 November 2002 and the last one – on 5 May 2015. The price of the credit line resources is based on the price of resources of the World Bank (6 month DEM LIBOR) plus 1% fixed rate and floating currency risk margin of 1% (only for LVL resources). The price of resources of the credit line as at 31 December 2000 amounted to 7.31% per annum for resources in lats (1999: 5.71%) and 6.31% per annum for DEM resources (1999: 3.71%).

On 25 November, 1998 the Bank signed an agreement with the Latvian Development Agency on servicing the EU PHARE resources amounting to 1 million EUR within the framework of the Energy Efficiency Fund Project. The term of the interest free credit line is 10 years and its resources are disbursed in lats. The purpose of the credit line is lending to projects raising energy efficiency.

As at 31 December, 2000 12,405 thousand lats of transit funds were disbursed in loans. The remaining 2,449 thousand lats were placed as term deposits on the inter-bank market and Latvian government securities.

27. MORTGAGE BONDS

Total debt securities volume of the Mortgage Bank formed AC, AE, AF and AG series mortgage bonds. The purpose of the issues was to attract resources for the refinancing of the long term mortgage loans, offering investors a secured financial market tool.

In 2000, the Mortgage Bank has issued and sold mortgage bonds with the total face value of 3,820 thousand lats (in 1999 – 530 thousand lats) which shows that investors and contributors have recognized mortgage bonds as secure and profitable financial tool.

At the end of 2000, the Mortgage Bank has issued mortgage bonds with the total face value of 4,350 thousand lats. The Mortgage Bank has bought back mortgage bonds with a face value amounting to 66 thousand lats (in 1999 – 61 thousand lats) and in the financial statement balance sheet the total number of issued mortgage bonds is showed in net face value of 4,284 thousand lats (in 1999: 469 thousand lats).

All mortgage bonds' series of the Mortgage Bank are quoted on the Official List of the Riga Stock Exchange, therefore also pension and investment funds are able to invest their resources in these mortgage bonds.

Statement on Mortgage bond coverage as at 31 December 2000**(a) Issued mortgage bonds**

Security class	AC	AE	AF	AG
Number of mortgage bonds	10,000	30,000	10,000	30,000
Face value, LVL	100	100	100	100
Registered volume, LVL	1,000,000	3,000,000	1,000,000	3,000,000
Issued volume, LVL	1,000,000	1,600,000	1,000,000	750,000
Coupon rate, %	8.5	8.0	8.5	7.5

(b) Structure of Mortgage bond coverage

	2000	1999
Value of cover included in Mortgage bond coverage	8,329	5,056
Mortgage loans	8,157	5,056
Substitute coverage	172	-
Real estate taken over by the Bank	-	-
Mortgage loans unable of coverage	-	-
Payments received during the period	1,825	565
Principal payments	805	172
Interest payments	1,020	393
Payments made during the period	192	18
Redeemed mortgage bonds	-	-
Coupon payments	192	18
Expected payments receivable during the next period	1,978	735
Principal payments	907	425
Interest payments	1,071	310
Expected payments payable during the next period	354	45
Redeemed mortgage bonds	-	-
Coupon payments	354	45
(c) Analysis of mortgage loans included in Mortgage bond coverage by type of real estate		
Residential mortgage loans	3,577	2,493
Commercial mortgage loans	4,580	2,563
Total	8,157	5,056

28. OTHER LIABILITIES

	2000	1999
Resources for the coverage of the property compensation certificates	6	516
Other liabilities	459	458
	465	974

29. PROVISIONS AND ACCRUED EXPENSES

	2000	1999
Accrued interest expense	624	359
Deferred income	10	17
Provision for income tax	-	278
Provision for deferred taxation	448	245
Other accrued expenses	256	53
	1,338	952

Calculation of deferred tax

	2000		1999	
	Temporary difference	Tax effect 25%	Temporary difference	Tax effect 25%
Temporary difference on depreciation of fixed assets	2,099	525	1,600	400
Temporary difference on provisions	(306)	(77)	(617)	(155)
Deferred tax liability	1,793	448	983	245

	2000	1999
Deferred tax liability at 1 January	(245)	(233)
Deferred tax charge for the year	(203)	(12)
Deferred tax liability at 31 December	(448)	(245)

30. SHARE CAPITAL

	2000		1999	
	Number	LVL	Number	LVL
a) registered share capital				
Ordinary shares	7,000,000	7,000,000	3,500,000	3,500,000
b) fully paid share capital				
Ordinary shares	4,720,500	4,720,500	4,745,500	4,745,500
Reserve shares of Board	25,000	25,000	-	-
Total:	4,745,500	4,745,500	4,745,500	4,745,500

The new Statutes of the Bank, which were approved by the Cabinet of Ministers of the Republic of Latvia on 16 May, 2000 were registered with the State Enterprises Register on 21 June, 2000. According to the new Statutes the registered share capital was increased to LVL 7 000 000 on 30 September, 2000. Pursuant to the new Statutes the fully paid share capital of the Bank consists of 4,720,500 ordinary shares in the total amount of LVL 4 720 500 which belong to the State of Latvia and 25,000 shares of the Bank's Management Board reserve shares in the total amount of LVL 25,000 which carry no voting rights. The face value of each share is LVL 1.

31. RESERVE CAPITAL

	2000	1999
Reserve capital	3,106	2,493

Reserve capital of the Bank was established mainly from state donations both from fixed assets and cash, and as minimum 50% contributions from annual profit of the Bank, as prescribed by the Articles of association of the Bank. The reserve capital during the accounting year includes proposed transfer to reserves from current year's profit.

An overall summary of the movements of the reserve capital is reflected in the statement on changes in the shareholders equity.

32. GENERAL RESERVE

In accordance with decision of the shareholders meeting on 23 February 2000, a general reserve in the amount of 232 thousand lats was established. The shareholders of the Bank intend to include the above reserve in share capital of the Bank in the future.

33. CASH AND CASH EQUIVALENTS

The following balances represents cash and cash equivalents in the cash flow statement:

	2000	1999
Cash	2,225	1,763
Placements with the Bank of Latvia	2,243	2,687
Placements with other banks	2,565	3,774
Placements with other banks with remaining maturity up to 3 months	6,339	1,799
Placements from other banks with remaining maturity up to 3 months	(297)	(3)
	13,075	10,020

34. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders, employees, members of the Supervisory Council and the Management Board, their close relatives and companies in which they have a controlling interest.

In 2000 the Bank carried out transactions with its employees in accordance with internally approved terms and conditions. The average interest rate on loans issued to staff as at 31 December, 2000 was 8.4% per annum (the average interest rate of the loan portfolio is 13.6% per annum).

In 2000 the Bank granted loans to the associated entity SIA "Hipotēku bankas nekustamā īpašuma aģentūra" in total amount of LVL 209 thousand.

Set out below is the total of term deposits and current accounts held by and loans granted to related parties, including all employees of the Bank as at the end of the year:

	2000	1999
Deposits	374	107
Loans		
Loans as at 1 January	420	249
Issued during the year	664	276
Repaid	(147)	(105)
Loans as at 31 December	937	420

35. POST BALANCE SHEET EVENTS

The Shareholders' meeting held on 4 January 2001 elected Vija Geme as member of the Council of the Bank with coincident record in Enterprise register of the Republic of Latvia on 15 January 2001.

36. COMMITMENTS AND CONTINGENCIES

The Bank's claims against bad and doubtful debtors amounted to 307 thousand lats as at 31 December, 2000 (1999: 78 thousand lats). Court proceedings continue. The amount does not include a claim for 376 thousand lats against the stock company "Sakaru banka" since the proceedings were postponed until the end of the liquidation process of Sakaru banka. Claims against the Bank amounted to 41 thousand lats as at 31 December, 2000 (1999: nil).

Off balance sheet items	2000	1999
Contingent liabilities	268	49
<i>outstanding guarantees</i>	268	49
Financial commitments	4,873	2,771
<i>unutilised facilities</i>	4,781	2,771
<i>other</i>	92	-
Foreign exchange transactions	(2)	-
<i>forward foreign exchange receivable</i>	237	-
<i>forward foreign exchange payable</i>	(239)	-

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	over 5 years	Total
Assets							
Cash and balances with the Bank of Latvia	4,468	-	-	-	-	-	4,468
Due from credit institutions	8,900	-	56	123	842	-	9,921
Loans to customers	2,356	3,361	3,116	5,513	28,276	10,729	53,351
Obligations and other fixed income debt securities	220	-	617	282	233	-	1,352
Equity securities	-	-	9	-	52	-	61
Fixed assets	-	-	-	-	2,130	2,823	4,953
Other assets	15	1	66	51	585	5	723
Prepayments and accrued income	444	57	46	55	18	18	638
Total Assets	16,403	3,419	3,910	6,024	32,136	13,575	75,467
Liabilities							
Due to credit institutions	297	-	-	-	1,196	2,277	3,770
Customer deposits	13,391	4,265	6,793	11,099	3,814	3,200	45,562
Mortgage bonds	-	-	-	-	3,584	700	4,284
Transit funds and other liabilities	256	685	55	497	4,779	9,047	15,319
Provisions and accrued expense	294	449	46	70	463	16	1,338
Total liabilities	14,238	5,399	6,894	11,666	13,836	15,240	67,273
Maturity gap	2,165	(1,980)	(2,984)	(5,642)	18,300	(1,665)	8,194

The amounts above represent assets and liabilities grouped by maturity.

38. REPRICING MATURITY ANALYSIS

The Bank faces interest rate risk arising as a result of differences within maturities interest re-fixing dates of respective interest sensitive assets and liabilities. The Bank seeks to control these risks through the activities of Treasury, Asset and Liabilities management. In the opinion of management, the repricing maturity structure of assets and liabilities is not materially different from the contractual maturity structure of assets and liabilities set out in note 37 above.

39. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES

	LVL	USD	Other	Total
Assets				
Cash and balances with the Bank of Latvia	3,509	768	191	4,468
Due from credit institutions	6,032	3,149	740	9,921
Loans to customers	23,854	24,587	4,910	53,351
Obligations and other fixed income				
debt securities	1,352	-	-	1,352
Equity securities	61	-	-	61
Fixed assets	4,953	-	-	4,953
Other assets	690	27	6	723
Prepayments and accrued income	332	240	66	638
Total Assets	40,783	28,771	5,913	75,467
Liabilities				
Due to credit institutions	12	-	3,758	3,770
Customer deposits	24,105	17,821	636	42,562
Mortgage bonds	4,284	-	-	4,284
Transit funds and other liabilities	2,745	11,143	1,431	15,319
Provisions and accrued expense	969	288	81	1,338
Total liabilities	32,115	29,252	5,906	67,273
Shareholders' equity	8,194	-	-	8,194
Off balance sheet items				
Liabilities of future currency contracts	(168)	95	71	(2)
Currency position	306	(386)	78	(2)

The total open position of foreign currencies accounted for 4.7% (1999: 4.4%) of shareholder's equity as at 31 December, 2000.

All open positions for each separate currency as percentage of the shareholders' equity as at 31 December, 2000 did not exceed 10%. Consequently the Bank complies with the Bank of Latvia regulatory requirements.

The majority of the Bank's assets and liabilities are in lats. Transit resources and transit loans predominantly are in USD. The Bank manages its foreign currency position in accordance with the Currency Risk Management Policy adopted within a framework of Internal Control System.

There were no foreign currency positions in currencies of CIS countries at 31 December 2000 and 1999.

40. GEOGRAPHICAL SEGMENTATION OF ASSETS AND LIABILITIES

The Bank specialises in lending to small and medium sized enterprises and the development of mortgage lending in Latvia. The assets and liabilities are mainly concentrated in the Republic of Latvia. The Bank has established correspondent relations with banks in the OECD and non-OECD countries for money transfer transactions in different currencies.

41. CAPITAL ADEQUACY CALCULATION

According to the regulations of the Bank of Latvia

	31 December 2000	31 December 1999
Nil percent credit risk weighted assets - group No 1		
Cash and balances with the Bank of Latvia	4,468	4,450
Republic of Latvia treasury bills	1,070	1,200
Total group No 1	5,538	5,650
Weighted value	-	-
20% credit risk weighted assets - group No 2		
Due from A zone banks	3,499	1,831
Demand deposits held at Latvian banks	900	1,938
Total group No 2	4,399	3,769
Weighted value	880	754
50% credit risk weighted assets - group No 3		
Term deposits held at Latvian banks	5,803	1,809
Prepayments and accrued interest income	638	433
Total group No 3	6,441	2,242
Weighted value	3,221	1,121
100% credit risk weighted assets - group No 4		
Due from B zone banks	1	-
Due from other enterprises	53,351	33,483
Equity securities	61	62
Fixed Assets	4,953	4,383
Other Assets	723	574
Total group No 4	59,089	29,666
Weighted value	59,089	29,666
Off-balance sheet items		
100% conditioned adjustment grade weighted off-balance sheet items		
Outstanding guarantees	268	49
Weighted value	268	49
50% conditioned adjustment grade weighted off-balance sheet items		
Unutilised loan facilities	4,781	2,771
Other financial liabilities	92	-
Total	4,873	2,771
Weighted value	2,437	1,386
Total Assets and off-balance sheet liabilities weighted value (A)	65,895	32,976
Capital Tier One		
Share capital	4,746	4,746
Reserve capital	2,493	1,966
General risk reserve	232	-
Unsubstantial assets	(15)	-
Audited profit for the current year	723	898
Total Capital Tier One	8,179	7,610
Bank portfolio credit risk capital claim(C) (A*0,10)	6,590	3,298
Foreign currency risk capital claim (D)	18	14
Capital adequacy ratio (B/((C+D)*10))	12%	23%
Minimum capital adequacy ratio per Bank of Latvia	10%	10%

According to Basle Capital Accord

	31 December 2000	31 December 1999
Nil percent credit risk weighted assets - group No 1		
Cash and balances with the Bank of Latvia	4,468	4,450
Republic of Latvia treasury bills	1,070	1,200
Total group No 1	5,538	5,650
Weighted value	-	-
20% credit risk weighted assets - group No 2		
Due from OECD banks	3,499	1,831
Due from non - OECD banks	1	-
Demand deposits held at Latvian banks	900	1,938
Total group No 2	4,400	3,769
Weighted value	800	754
50% credit risk weighted assets - group No 3		
Loans fully secured by mortgage on residential property	19,494	8,836
Total group No 3	19,494	8,836
Weighted value	9,747	4,418
100% credit risk weighted assets - group No 4		
Term deposits held at Latvian banks	5,803	1,809
Due from non-credit institutions	33,857	24,647
Equity securities	61	62
Fixed Assets	4,953	4,383
Deferred expense and accrued income	638	433
Other Assets	723	574
Total group No 4	46,035	31,908
Weighted value	46,035	31,908
Off-balance sheet items		
Off-balance sheet items with 0% risk rate		
Guarantees backed-up with deposits	10	49
Financial contracts (14 days or less to maturity)	237	-
	247	49
Weighted value	-	-
Off-balance sheet items with 100% risk rate		
Unutilised loan facilities	4,781	2,771
Other guarantees	350	-
	5,131	2,771
Weighted value	5,131	2,771
Total assets	75,467	50,163
Total assets and off-balance sheet liabilities weighted value (B)	61,793	39,851
Capital equity Tier One elements		
Share capital	4,746	4,746
Reserve capital	2,493	1,966
Total capital equity Tier One elements	7,239	6,712
Capital equity Tier Two elements		
Audited profit for the current year	723	898
General reserve	299	320
Total capital equity Tier Two elements	1,022	1,218
Total capital equity (A)	8,261	7,930
Capital adequacy ratio (A / B * 100)	13%	20%
Minimum capital adequacy ratio per Basle Capital Accord	8%	8%