

**JSC “BALTIC INTERNATIONAL BANK”
FINANCIAL STATEMENTS
DECEMBER 31, 2000**

**JOINT-STOCK COMPANY
“BALTIC INTERNATIONAL BANK”
FINANCIAL STATEMENTS
2000**

**JSC “BALTIC INTERNATIONAL BANK”
FINANCIAL STATEMENTS
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**Joint-stock company “BALTIC INTERNATIONAL BANK”
MANAGEMENT REPORT**

Dear Ladies and Gentlemen ,

The Council and Management Board of the JSC “Baltic International bank” present for your attention the annual report of the Bank’s activities in the year of 2000.

The passed year 2000 was the most successful for the banking system of Latvia during recent years – the total volume of assets of the industry (banking) by the end of 2000 grew by 37,5 % in comparison with the end of 1999, the unaudited profit of the banks for the year has increased 2,5 times. But the development and growth of the “Baltic International bank” was even greater – the average volume of assets grew by 57,2 %, the financial result of Bank’s activities in the year 2000 was a profit of LVL 353 thousand in comparison with a loss in 1999.

The Bank showed a record increase – the total volume of operations in the year 2000 compared with the previous year has increased by 77,5 % and made up LVL 21,3 billion, the average assets amount in 2000 grew by LVL 11 million. Profits exceeded budgeted results in 2000 by 105%.

The most important indicator for the Bank is the quantity of its clients. In the year 2000 the number of clients of the JSC “Baltic International bank” increased by 24 % and the number of current accounts opened during the year by 25 %. The activities of the clients in the work with the Bank also increased – in 2000 the Bank has executed 45% more payments than in the previous year.

The year 2000 was marked with a number of important events in the activities of the Bank, including

- in July of 2000 the Bank has signed an agreement of cooperation with “American Express International” company on issuance to the clients and servicing of the international settlement cards “American Express International Dollar Card” ;
- in November 2000 JSC “Baltic International bank” became a member of the International Settlements Institution and Settlement System ”Europay International” and obtained licences providing the Bank the rights to issue its own international settlement cards “Eurocard/Mastercard” and “Maestro”.

We thank our clients and partners for the cooperation, which becomes more and more versatile and continues to extend and we’ll continue to do our best to promote the further growth and development of your businesses.

Our thanks – to the personnel of the Bank, which increased in quantity and improved in quality in 2000. The Bank’s management is glad to mark the professional growth of the banking staff members and is looking forward that this trend will continue during future years.



Chairman of the Council
Valeri Belokon



Chairperson of the Board
Alla Tkachenko

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

Supervisory Council as of December 31, 2000

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

Management Board as of December 31,2000

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

During the current year, no changes in the Council or Board Members took place.

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STATEMENT OF THE MANAGEMENT RESPONSIBILITY

Riga

28 March 2001

Management are responsible for preparing financial statements from the books of prime entry of JSC "Baltic International bank" ("the Bank") that present fairly the state of affairs of the Bank as of 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 7 to 30 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 Central Bank 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. It is 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 Central Bank.

On behalf of management,



Valeri Belokon
Chairman of the Council



Alla Tkachenko
Chairperson of the Board

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INDEPENDENT AUDITOR’S REPORT

**To the shareholders of the joint stock company
Baltic International Bank**

We have audited the accompanying balance sheet of the joint stock company Baltic International Bank (“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 7 to 30. 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 29 March 2000 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements present fairly, in all material respects, 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 as promulgated by the International Accounting Standards Committee.

KPMG Latvia SIA
Riga, Latvia
28 March 2001

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PROFIT AND LOSS ACCOUNT

	Notes	2000	1999
Interest income	4	1,488,143	904,221
Interest expense	5	<u>(532,374)</u>	<u>(336,500)</u>
Net interest income		955,769	567,721
Fees and commission income	6	497,398	449,008
Fees and commission expense	7	<u>(126,038)</u>	<u>(164,953)</u>
Operating income		1,327,129	851,776
Gain/(loss) from trading in securities and foreign exchange	8	154,188	(218,231)
Dividend income		688	1,623
Other operating income	9	86,281	35,204
Administrative expenses	10	(849,951)	(1,238,133)
Depreciation of fixed assets and intangible assets		(121,650)	101,167
Provisions for bad and doubtful debts		(234,925)	(2,892,403)
Release of provisions		14,286	349,087
Gain/loss from revaluation of long-term investments		<u>(22,404)</u>	<u>(48)</u>
Profit of the current year		<u>353,642</u>	<u>(3,009,958)</u>

The accompanying notes on pages 12 to 30 form an integral part of financial statements.

These financial statements on pages 7 – 30 have been approved by the Management Board on 21 March 2001.



Valeri Belokon
Chairman of the Council



Alla Tkachenko
Chairperson of the Board

**JSC “BALTIC INTERNATIONAL BANK”
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BALANCE SHEET

Assets	Notes	2000	1999
Cash and balances with the Central Bank	12	1,291,202	1,237,929
Due from credit institutions	13	15,579,956	10,921,989
<i>on demand</i>		<i>15,120,096</i>	<i>10,752,602</i>
<i>others</i>		<i>459,860</i>	<i>169,387</i>
Loans to customers	14	4,886,244	6,519,913
Fixed income securities	16	395,171	328,442
Equity and other non-fixed income securities	17	278,862	97,773
Investments in associated companies	18	156,356	174,816
Fixed assets	19	1,292,218	1,095,293
Intangible assets	20	41,678	3,075
Other assets	21	988,308	114,641
Prepayments and accrued income	22	121,915	132,084
Total assets		25,031,910	20,625,955
Managed trust assets	23	<u>1,133,852</u>	<u>661,279</u>
Total assets and managed trust assets		<u>26,165,762</u>	<u>21,287,234</u>

The accompanying notes on pages 12 to 30 form an integral part of financial statements.

**JSC "BALTIC INTERNATIONAL BANK"
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BALANCE SHEET

Liabilities	Notes	2000	1999
Due to credit institutions	24	263,950	68,164
<i>on demand</i>		263,950	68,164
Customers' deposits	25	21,007,092	17,048,187
<i>current</i>		13,833,239	11,454,456
<i>fixed term deposits</i>		7,173,853	5,593,731
Other liabilities	26	139,861	294,114
Deferred income and accrued expense	27	164,364	154,136
Subordinated liabilities	28	993,807	952,160
		22,569,074	18,516,761
 Shareholders' equity		 2,462,836	 2,109,194
<i>Share capital</i>	29	5,874,310	5,874,310
<i>Reserve capital and other reserves</i>	29	545,024	545,024
<i>Retained earnings for the previous accounting periods</i>		(4,310,140)	(1,300,182)
<i>Retained earnings for the current accounting period</i>		353,642	(3,009,958)
Total liabilities and shareholders' equity		25,031,910	20,625,955
Managed trust liabilities	23	1,133,852	661,279
Total liabilities, equity and managed trust liabilities		26,165,762	21,287,234
 Off-balance items			
Guarantees	32	39,845	11,660
Financial commitments	32	185,990	282,993
 Foreign exchange receivables	 32	 7,643,454	 5,293,557
Foreign exchange payables		7,668,714	5,293,557

The accompanying notes on pages 12 to 30 form an integral part of financial statements.

These financial statements on pages 7 – 30 have been approved by the Management Board on 21 March 2001.



Valeri Belokon
Chairman of the Council



Alla Tkachenko
Chairperson of the Board

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Reserve capital	Accumulated deficit	Total
Balance as of December 31, 1998		2,000,025	324,103	(266,788)	2,057,340
Share capital increase		3,874,285	-	-	3,874,285
Reserve capital increase		-	220,921	-	220,921
Acquisition of Lainbank previous year losses	2			(1,033,394)	(1,033,394)
Loss for the year		-	-	(3,009,958)	(3,009,958)
Balance as of December 31, 1999		<u>5,874,310</u>	<u>545,024</u>	<u>(4,310,140)</u>	<u>2,109,194</u>
Profit for the current year		-	-	353,642	353,642
Balance as of December 31, 2000		<u><u>5,874,310</u></u>	<u><u>545,024</u></u>	<u><u>(3,956,498)</u></u>	<u><u>2,462,836</u></u>

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CASH FLOW STATEMENT

	Note	2000	1999
Cash flow from operating activities			
Profit/(loss) before taxation		353,642	(3,009,958)
Depreciation and amortisation		121,650	131,799
(Decrease)/increase in provisions		(1,389,688)	1,793,073
Foreign exchange revaluation (profit)/loss		(128,830)	320,871
Loss from revaluation of long-term investments		22,404	48
(Profit)/loss from fixed assets sale		3 122	(91)
Increase in deferred income and accrued expense		10,228	92,928
(Increase)/decrease in deferred expense and accrued income		9,985	(103,280)
(Increase)/decrease in other assets		(874,651)	1,157
Increase/(decrease) in other liabilities		(154,253)	63,423
Decrease in cash and cash equivalents from operating activities before changes in assets and liabilities		<u>(2,026,391)</u>	<u>(710,030)</u>
Increase in short term investments		(250,145)	(185,317)
(Increase)/decrease in balances due from credit institutions		(8,211)	264,545
(Increase)/decrease in loans to customers		3,018,859	(6,247,212)
Increase in balances due to credit institutions		195,786	67,918
Increase in customers' deposits		3,958,905	8,532,483
Taxes paid		-	-
Increase in cash and cash equivalents from operating activities		<u>4,888,803</u>	<u>1,722,387</u>
Cash flow from investing activities			
Purchase of fixed assets		(323,555)	(939,536)
Purchase of investments in companies equity and other long-term investments		-	(130,281)
Purchase of intangible assets		(41,131)	-
Proceeds from fixed assets sales		4,386	2,384
Decrease in cash and cash equivalents from investing activities		<u>(360,300)</u>	<u>(1,067,433)</u>
Cash flow from financing activities			
Proceeds from shares issuing and subordinated liabilities attraction		41,647	3,793,051
Proceeds from the other sources of financing		-	220,920
Increase in cash and cash equivalents from financing activities		<u>41,647</u>	<u>4,013,971</u>
Increase in cash and cash equivalents		4,570,150	4,668,925
Cash and cash equivalents at the beginning of the current period	30	12,159,918	7,811,864
Profit (loss) from foreign exchange revaluation	8	128,830	(320,871)
Cash and cash equivalents at the end of the current period	30	<u>16,858,898</u>	<u>12,159,918</u>

The accompanying notes on pages 12 to 30 form an integral part of financial statements.

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1. GENERAL INFORMATION

Description of the Bank

The joint-stock company “Baltic International bank” (“the Bank”) was founded on 3 May 1993. The main types of the Bank’s activities are loans’ issuance, customers money transfers and transactions with foreign exchange and securities both for customers and for the Bank’s purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) General accounting principles

The financial statements have been prepared under the historical cost convention, in accordance with IAS and the Central Bank regulations on annual reports of credit institutions.

(2) Reclassifications

On 23 December 1999 the reorganization of the insolvent joint-stock company “Industrial Central Bank” (Lainbank) and joint-stock company “Baltic International bank” took place, resulting in the merger of Lainbank with Baltic International bank. As a result of the reorganization the Bank became the successor of all the rights and liabilities of the Lainbank. In accordance to the merger agreement, the Bank recognised results of operations for Lainbank in the profit and loss statement of the Bank on a line by line item basis for the year 31 December 1999. The accumulated deficit of Lainbank as at January 1, 1999 was charged to the accumulated deficit of the Bank in the year ended December 31, 1999.

The Bank’s accounting is carried out in accordance with the legislation of the Republic of Latvia and common accounting methods used by Latvian commercial banks, which are regulated by the instructions of the Central Bank as well as other appropriate rules of the Republic of Latvia. The financial statements of the Bank for 1999 were prepared according to the above mentioned principles. Reclassification has been made to prior year comparatives, where appropriate, to conform with International Accounting Standards (“IAS”).

Foreign currency translation

The currency of the Republic of Latvia – Lat – is used in the annual report. All assets and liabilities and off-balance sheet claims and liabilities in foreign currencies are revalued in Lats according to the Central Bank exchange rate as of the end of the period. Gains and losses relating to foreign currency exchange rates fluctuations are included in the profit and loss statement for the period.

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

Currency	The Central Bank exchange rate as of 31 December 2000	The Central Bank exchange rate as of 31 December 1999
EUR	0.570042	0.587516
GBP	0.917000	0.942000
LTL	0.153000	0.146000
RUB	0.021600	0.021300
UAH	0.113000	0.106000
USD	0.613000	0.583000

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(3) Income recognition

All material income and expenses, including interest income and interest expense, are recognized on an accrual basis. Accrued interest income is calculated on standard and watch categories of loans. Commissions received are included in income at the day when the corresponding transaction took place. Income and expenses of the accounting period are recognized and included in the profit and loss statement irrespective of the date of receipt or payment.

(4) Investments

Government Treasury Bills

The Bank has purchased Government Treasury Bills, excluding US Treasury Bills, for investment purposes. Securities classified as investment are held for long-term purposes. Securities purchased for investments are disclosed at their purchase value, adjusted for provisions for these investments due to impairment. Government Treasury Bills purchased with a premium or discount are included in the balance sheet at their initial value, plus the premium or discount. The premium or discount is amortized in the profit and loss account over the remaining term to maturity.

US Government Treasury Bills, purchased for trading purposes, are recognized at their market value, using the market quotations for prices. Gains and losses from revaluing these securities are included in the profit and loss account.

Other fixed-income securities

Other fixed-income securities are held for trading purposes. Securities held for trading purposes are securities, which are purchased by the Bank for short term non-fixed periods of time, are liquid and can be sold at any time. Securities held for trading purposes are included in the balance sheet at their market quotation prices. Gains or losses are included in profit and loss account.

Shares and other non-fixed-income securities

Equity securities, excluding investments in associates, are initially accounted at their purchase value. At the end of each month they are revalued in accordance with market prices. Gains and losses arising from the revaluation of these securities are included in the profit and loss account.

(5) Derivative contracts

The Bank participates in foreign exchange forward contracts and currency swap instruments, which are carried in off – balance sheet accounts.

Swap revaluation is recognised in the profit and loss account in the following manner:

- foreign exchange profit and loss – a gain or loss from a change in the fair value of receivables and payables arising from outstanding foreign exchange rate contracts. Off-balance sheet financial assets and liabilities arising from such transactions are carried in off-balance sheet accounts at the rate of exchange of the previous accounting period and are revalued at the exchange rate of the current period;
- interest income/expense over the life of the swap – a gain or loss arising from the difference between spot and forward rates of currency swap transactions.

Off- balance sheet financial assets and liabilities arising from currency swap deals involving an initial exchange of the principal which is then re-exchanged at a predetermined rate on the maturity of the swap are carried in off-balance sheet accounts at the rate of exchange prevailing at the end of the reporting period.

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(6) Loans

Loans are recognized in the balance sheet at the amount of principal outstanding, less any provision for bad and doubtful loans. Accrued interest is included in “Prepayments and accrued income”.

The Bank’s management evaluates the risks of all loans and determines the necessary provisions for bad and doubtful loans. The amount of the necessary provisions is determined according to the risk evaluation parameters defined by the Central Bank and according to the level of provisions relating to the risk level. Loans are divided into five risk groups depending on loan or interest payment delays, and the corresponding provisions for the loan principal and unpaid interest amount are determined. The quality and value of the collateral are taken into account to determine the level of the necessary provisions. If the loan is considered lost, the related provisions and the loan are written-off. Loans are written-off when the possibility of its repayment is considered to be improbable. Loans which were written-off and subsequently repaid are credited to the profit and loss account in the period in which they were repaid.

(7) Fixed assets and depreciation

Fixed assets are recorded at their cost less accumulated depreciation. Fixed assets less than LVL 50 are included in expenses at the time of purchase. Depreciation is calculated using the straight-line method and using the following annual depreciation rates:

- buildings	2 %
- technological equipment	20 %
- vehicles	20 %
- other fixed assets	10 %
- computers	20 %

Depreciation is not calculated on unfinished buildings and land.

Intangible assets include licenses for use of different computers programs.

(8) Fair value of financial assets and liabilities

Fair value of financial assets and liabilities reflects the amount at which an asset could be exchanged or a liability settled on an arm’s length basis. If the Bank’s management considers that the fair value of financial assets and liabilities differs materially from its book value, then the fair value of these assets and liabilities is disclosed separately in the notes to the financial statements.

(9) Money in transit

Money in transit which are payments unfinished (not executed) as of the year end, are included in corresponding account balances of the customers.

(10) Cash and cash equivalents

Cash and cash equivalents include cash, Central Bank correspondent account balances and claims on demand from credit institutions.

(11) Capital adequacy calculation

From 1 July 2000 the new regulations “Capital adequacy calculation regulations” accepted by the Central Bank came in force. For the purpose of adequate comparison of the capital adequacy ratios according to the requirements of the Central Bank, the 1999 data of the capital adequacy ratio was recalculated and disclosed according to the new regulations of capital adequacy calculation.

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(12) Off-balance sheet assets and liabilities accounting

The Bank uses different financial instruments, such as fixed term foreign exchange transactions (SWAP, Forward), as well as issues letters of credit and guarantees and provides creditlines. The financial instruments are the subject of different off-balance sheet risks. Claims and liabilities are included in off-balance sheet items.

(13) Income tax

According to the tax legislation of the Republic of Latvia corporate income tax is calculated at 25% of taxable income in 2000 and 1999.

Deferred tax assets or liabilities are recognised for all temporary differences between the carrying amount of an asset or liability on the balance sheet and its tax base. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank’s financial statements or tax returns. The deferred taxation asset or liability is determined based on the tax rates enacted or substantively enacted at the balance date. The principal timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets and general provisions for bad debts and provisions for other expenses.

(14) Provisions

Special provisions for bad and doubtful debts are made monthly based on regular loan review. Special provisions and releases from provisions during the period are reflected in the profit and loss statement. Provision is made for bad and doubtful loans using the methodology based on financial performance and debt servicing under which loans are classified into the following five categories:

	Percentage provision
Standard	0%
Watch list	10%
Substandard	30%
Doubtful	60%
Loss	100%

General provisions are created at LVL 150 000 on loans issued to non-residents to reflect potential risk existing in the current loan portfolio.

3. RISK MANAGEMENT

Risk management is an essential part of the Bank’s activities. The Bank’s key risks are credit, liquidity, interest rates and foreign exchange rate risk. The Council and the Board of the Bank have accepted the policies for the management of the main risks related to the Bank. These policies determine the procedures and limits for the risks and monitoring in all the fields of activities of the Bank. The Board of the Bank regularly controls the fulfilling of the terms and conditions set by the policies and ensures that the risk management system is revised on a regular basis and adjusted in accordance with the development of the Bank’s activities and financial markets development. The independent control function is performed by the Internal Audit Department.

Credit risk

Credit risk is characterized by the loss which could arise if the borrowers cannot follow the contract conditions. The Bank is exposed to this material risk while holding funds with the other banks and other financial institutions, dealing with securities and providing loans and advances to the customers.

Correspondent relations with other banks could be established only after the Board accepts the evaluation of financial position of these Banks.

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The credit risk management and control related procedures and limits are set by the Bank’s Loans policies. The Credit & Investment Committee is the institution, which is responsible for enforcing Loan policies in the Bank’s activities.

Loans to the customers are mostly secured with collateral. Loans are evaluated by the Loans division and are accepted by Credits & Investments Committee and the Board, depending on defined limits. Loan portfolio supervision is carried out on regular basis. Provisions for doubtful loans are included in the financial statements according to regulations of the accounting policy of the Bank.

Liquidity risk

The table “Maturity analysis of assets and liabilities” reflects the distribution of Bank’s assets, liabilities and off-balance sheet items by its maturity as of December 31, 2000.

The Bank manages its liquidity with the purpose to provide the availability of funds at any time while duly executing funds outflow liabilities. The risk of liquidity control and management is set by the Liquidity management policies of the Bank. The Resources Supervision Committee of the Bank is responsible for enforcing the above mentioned policies and observation of the Bank’s activities. The Committee determines the necessary limits for transactions, clients and partners and monitors compliance of the Bank’s activities to those limits and procedures.

Foreign exchange risk

The Bank has assets and liabilities denominated in foreign currencies. Foreign exchange risk arises due to the mix of assets and liabilities denominated in foreign currencies. The control and management of the foreign exchange risk of the Bank is defined by the Bank’s Foreign exchange risk management policies. Resources Supervision Committee of the Bank is responsible for enforcing the above mentioned policies and observation of the Bank’s activities. According to the terms and conditions of the policies the Committee determines the necessary limits for transactions, clients and partners and controls the compliance policies of the Bank’s activities to those limits and procedures.

The Bank has operations mainly in Latvian Lats, US Dollars, Euro.

The table “Currency analysis of assets and liabilities” reflects the Bank’s assets, liabilities, capital and reserves and off-balance sheet items as of December 31, 2000 by currency.

Interest rate risk

Interest rate risk is defined by the level of influence of the market interest rates on margin and net interest income. The margin between interest bearing assets and liabilities reflects the level for which net interest income will increase or decrease as a result of the interest rates fluctuations. The Resources Supervision Committee determines the procedures and limits for this risk, and regularly maintains that all the relating Bank’s divisions and departments comply with the Bank’s policies.

4. INTEREST INCOME

	2000	1999
Due from credit institutions	626,406	467,353
Loans to customers	833,109	387,687
Fixed income securities	28,628	49,181
	1,488,143	904,221

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5. INTEREST EXPENSE

	2000	1999
Liabilities to credit institutions	1,122	7,132
Current and deposit accounts	497,042	291,471
Subordinated liabilities	34,210	37,897
	<u>532,374</u>	<u>336,500</u>

6. FEES AND COMMISSION INCOME

	2000	1999
Guarantees	651	-
Cash operations	16,532	15,418
Money transfers services	466,285	418,859
Letters of credit	10,007	8,834
Trust management services	3,923	5,897
	<u>497,398</u>	<u>449,008</u>

7. FEES AND COMMISSION EXPENSE

	2000	1999
Services of correspondent banks	116,469	156,946
Transactions with securities	6,336	4,043
Other	3,233	3,964
	<u>126,038</u>	<u>164,953</u>

8. NET RESULT FROM DEALING WITH SECURITIES AND FOREIGN EXCHANGE

	2000	1999
Profit on dealing in foreign exchange	57,133	131,079
Gain/(loss) from foreign currency revaluation	128,830	(320,871)
Profit/(loss) on dealing in securities	(726)	9,120
Gain/(loss) from securities and other financial instruments revaluation	(31,049)	(37,559)
	<u>154,188</u>	<u>(218,231)</u>

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9. OTHER OPERATING INCOME

	2000	1999
Gains from sale of fixed assets	1,836	91
Income from rent of premises	9,775	30,334
Penalties received	38,932	246
Refund of taxes	35,678	4,279
Other	60	254
	<u>86,281</u>	<u>35,204</u>

10. ADMINISTRATIVE EXPENSES

	2000	1999
Remuneration to the Council and Board	6,167	8,104
Remuneration to the staff	191,675	205,280
Social tax expense	53,348	49,651
Stationery and miscellaneous	23,369	21,025
Professional services	143,758	324,736
Advertising expenses	13,073	16,773
Business trip expenses	30,863	31,910
Communication	137,956	166,628
Transport expenses	36,447	12,832
Fixed asset servicing and repair	5,063	14,792
Premises repair and maintenance	72,443	62,181
Expenses on security	8,290	8,319
Representation expenses	1,822	125
Land leasing	10,835	1,008
“Lainbank” administrative expense	-	148,761
Penalties	61,560	862
Tax expense	13,942	70,281
Other	39,340	94,865
	<u>849,951</u>	<u>1,238,133</u>

“Lainbank” administrative expenses include expenses arising during the “Lainbank” insolvency process, including the administrator’s remuneration.

11. TAXES

Current income tax for the year 2000 is nil (in 1999 – nil) due to losses carried forward from previous years. Deferred taxes are nil for the year ended 31 December 2000 and are comprised of the following as at 31 December 2000.

	2000	1999
Temporary difference from depreciation	42,373	149,048
Losses carried forward	(42,373)	(149,048)
Net deferred tax asset/liability	<u>-</u>	<u>-</u>

The Bank has additional losses carried forward at 31 December 2000 of LVL 2,674,161.

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12. CASH AND BALANCES WITH THE CENTRAL BANK

	2000	1999
Cash	259,035	287,465
Balance with the Central Bank	1,032,167	948,464
Other claims with the Central Bank	-	2,000
	<u>1,291,202</u>	<u>1,237,929</u>

According to the instructions of the Central Bank the total amount of cash and funds at the account with the Central Bank should not be less than the amount of the obligatory reserves, calculated from the average amount of certain liabilities during the month. During 2000, the Bank fulfilled these requirements.

13. DUE FROM CREDIT INSTITUTIONS

	2000	1999
Credit institutions registered in OECD countries	11,316,500	9,631,189
Credit institutions registered in Latvian Republic	430,458	101,422
Credit institutions of the other countries	3,832,998	1,193,427
Special provisions	-	(4,049)
	<u>15,579,956</u>	<u>10,921,989</u>

14. LOANS TO CUSTOMERS

(a) Loans

	2000	1999
Loans to state owned companies	10,616	6,914
Loans to private companies	4,896,846	8,024,237
Loans to individuals	416,263	361,435
Loans to management and staff	80,240	30,238
	<u>5,403,965</u>	<u>8,422,824</u>
General provisions	(150,000)	(150,000)
Specific provisions	(367,721)	(1,752,911)
	<u>4,886,244</u>	<u>6,519,913</u>

(b) Analysis of loans by type

	2000	1999
Overdrafts	2,804,128	4,202,090
Commercial loans	1,532,778	3,053,120
Industrial loans	164,696	114,862
Financial leasing	102,427	39,926
Consumer loans	50,881	16,852
Mortgage loans	642,702	141,090
Other loans	106,353	854,884
	<u>5,403,965</u>	<u>8,422,824</u>
General provisions	(150,000)	(150,000)
Specific provisions	(367,721)	(1,752,911)
	<u>4,886,244</u>	<u>6,519,913</u>

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(c) Geographical segmentation of the loans	2000	1999
Loans to the residents of Latvia	3,319,508	3,999,222
Loans to the residents of OECD countries	1,900,557	3,872,078
Loans to the residents of the other countries	183,900	551,524
	<u>5,403,965</u>	<u>8,422,824</u>
General provisions	(150,000)	(150,000)
Specific provisions	(367,721)	(1,752,911)
	<u>4,886,244</u>	<u>6,519,913</u>

(d) Loans by term	2000	1999
Within 1 month (including)	1,135,170	4,053,776
From 1 month to 3 months	1,514,455	505,236
From 3 months to 6 months	2,682	206,163
From 6 months to 1 year	34,704	549,247
More than 1 year	2,199,233	1,205,491
	<u>4,886,244</u>	<u>6,519,913</u>

15. ANALYSIS OF CHANGES IN PROVISIONS

	Loans	Others	Total
Provisions for bad and doubtful loans as of 31 December 1999	1,902,911	8,164	1,911,075
Write-off	(1,608,439)	(4,498)	(1,612,937)
Increase in provisions	234,925	-	234,925
Released from provisions	(11,676)	-	(11,676)
Provisions as of 31 December 2000	<u>517,721</u>	<u>3,666</u>	<u>521,387</u>

16. FIXED INCOME SECURITIES

	2000	1999
Government treasury Bills of Lithuania	149,993	328,442
Government treasury Bills issued by OECD countries	179,293	-
Others issuers' bonds and other debentures	65,885	-
	<u>395,171</u>	<u>328,442</u>

Government Treasury Bills of Lithuania of LVL 149,993, denominated in US Dollars, were purchased for investment purposes at a discount.

Government Treasury Bills issued by OECD countries consist of US Government Treasury Bills, which were purchased for trading purposes and are recognised at their market value.

Others issuers' bonds consist of the US state owned companies short-term and long-term bonds, which are purchased for trading purposes. Investments in securities purchased for trading purposes are recognised at their market value at the end of the year.

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17. EQUITY AND NON-FIXED INCOME SECURITIES

	2000	1999
Investments in shares traded at the Riga Stock Exchange	41,410	58,829
Riga Stock Exchange shares	35,000	38,944
Shares of the US state owned companies	3,569	-
Shares of the US private companies	198,883	-
Other investment	-	1,617
Provisions	-	(1,617)
	278,862	97,773

Investments in shares traded at the Riga Stock Exchange were acquired for trading purposes and are recognised at their market value as of the year end.

Investments in US companies shares, traded at the US stock market, were purchased for trading purposes and are disclosed at their market value as of the end of the year.

18. INVESTMENTS IN ASSOCIATED COMPANIES

Company	Share in equity	2000	1999
"Ribeksins Baltija B" SIA	35.00 %	29,245	47,416
"Capital" A/s	31.16 %	127,111	127,400
		156,356	174,816

The results of equity accounting are not identified on the grounds of immateriality. "Ribeksins Baltija B" SIA is a car trading company. "Capital" A/s is a computer trading company.

19. FIXED ASSETS

	Land and Buildings	Vehicles	Office machinery	Total
Historical cost				
As of 31 December 1999	759,365	150,253	583,920	1,493,538
Additions	238,195	13,427	71,933	323,555
Disposals	-	(99,847)	(111,026)	(210,873)
As of 31 Decemr 2000	997,560	63,833	544,827	1,606,220
Depreciation				
As of 31 December 1999	(820)	(109,704)	(287,721)	(398,245)
Depreciation	(16,878)	(19,911)	(82,333)	(119,122)
Disposals	-	92,462	110,903	203,365
As of 31 December 2000	(17,698)	(37,153)	(259,151)	(314,002)
Net book value				
As of 31 December, 1999	758,545	40,549	296,199	1,095,293
As of 31 December, 2000	979,862	26,680	285,676	1,292,218

In 1999, upon acquisition of fixed assets from Lainbank, the Bank changed depreciation rates on fixed assets acquired, resulting in a gain of LVL 232,966.

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20. INTANGIBLE ASSETS

Historical cost	
As of 31 December 1999	3,448
Additions	41,131
As of 31 December 2000	44,579
Amortisation	
As of 31 December 1999	(373)
Amortisation	(2,528)
As of 31 December 2000	(2,901)
Net book value	
As of 31 December 1999	3,075
As of 31 December 2000	41,678

21. OTHER ASSETS

	2000	1999
Prepayments of taxes	21	55,936
Precious metals	39,384	39,514
Due from brokers	772,784	-
Money placed with guarantee funds	164,561	11,148
Other debtors	12,542	8,043
Special provisions	(984)	-
	988,308	114,641

Due from brokers represent cash balances placed with brokers for the purpose of further investing in trading securities. Money placed with guarantee funds represent compulsory deposits placed for the purpose of card transactions and foreign exchange transactions.

22. PREPAYMENTS AND ACCRUED INCOME

	2000	1999
Prepayments	47,676	82,415
Accrued interest on loans	17,684	14,462
Accrued interest on interbank loans	53,311	23,711
Other accrued interest	5,926	13,994
Specific provisions	(2,682)	(2,498)
	121,915	132,084

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23. TRUST MANAGED ASSETS AND LIABILITIES

One of the Bank's activities is the managing of customers' funds and providing trust operations. The essence of trust operations is that customers' funds are managed by the Bank, and the Bank represents the customer with these funds. According to the client wishes the Bank invests received funds in the securities markets. As of 31 December 2000 the Bank had managed trust funds of LVL 1,133,852. Managed trust assets distribution at 31 December 2000 was as follows:

	%
State Treasury Bills	0.5%
Local authorities' bonds with fixed income	0.5%
Loans	99%
	<u>100%</u>

24. DUE TO CREDIT INSTITUTIONS

	2000	1999
Credit institutions registered at OECD countries	8	4,378
Credit institutions registered at Latvian Republic	103	586
Credit institutions of the other countries	263,839	63,200
	<u>263,950</u>	<u>68,164</u>

The average rate in 2000 has been 6%.

25. CUSTOMERS' DEPOSITS

	2000	1999
Current accounts		
State owned companies	90,584	349,344
Private companies	13,726,968	11,089,972
Individuals	14,299	13,661
Public organizations	1,388	1,479
	<u>13,833,239</u>	<u>11,454,456</u>

	2000	1999
Fixed-term deposits		
State owned companies	400,000	430,000
Private companies	6,180,504	5,161,947
Individuals	593,349	1,784
	<u>7,173,853</u>	<u>5,593,731</u>

Total customers' deposits	<u>21,007,092</u>	<u>17,048,187</u>
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The average rate in 2000 has been 6%.

26. OTHER LIABILITIES

	2000	1999
Other taxes payable	23,027	156,501
Unidentified beneficiaries' amounts	56,861	73,085
Funds in transit	-	20,856
Other creditors	59,973	43,672
	<u>139,861</u>	<u>294,114</u>

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Unidentified beneficiaries' amounts represent the payments received by the Bank where the beneficiary is not clearly identified.

27. DEFERRED INCOME AND ACCRUED EXPENSE

	2000	1999
Accrued interest payable	144,562	108,816
Other	19,802	45,320
	164,364	154,136

28. SUBORDINATED CAPITAL

The subordinated capital of the Bank consists of the Bank shareholder's deposits, as well as deposits taken over from Lainbank in 1999. Subordinated capital of the Bank has maturity of not less than seven years. The deposit holder may receive the deposit back before maturity only in case of Bank liquidation. The deposits are held in LVL and USD with the average interest rate of 4%.

29. SHARE AND RESERVE CAPITAL

	2000		1999	
	Quantity	LVL	Quantity	LVL
Registered share capital		2,000,025		2,000,025
Fully paid share capital				
Ordinary shares with voting rights	1,174,857	5,874,285	1,174,857	5,874,285
Ordinary shares without voting rights	5	25	5	25
	1,174,862	5,874,310	1,174,862	5,874,310

During the year 2000 there were no changes in the Bank's share capital.

Fully paid share capital amounts to LVL 5,874,310 consisting of 1,174,862 shares. All shares are ordinary shares with the par value of LVL 5. 1,174,857 shares carry voting rights. 5 shares carry no voting rights, however carry income rights and are registered for Board members. The total number of the Bank's shareholders is 104, from which 37 are legal entities and 67 are private persons.

Reserve capital was formed gradually in the previous periods from the contributions from the Bank's shareholders of LVL 545,024.

Shareholders which directly control 10 or more % are:

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

30. CASH AND CASH EQUIVALENTS

	2000	1999
Cash	259,035	287,465
Balance with the Central Bank	1,032,167	948,464
Due from credit institutions	15,567,696	10,923,989
	16,858,898	12,159,918

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31. LOANS PROVIDED TO RELATED PARTIES

Loans provided to employees	2000	1999
Total loans as of 31 December 1999	10,371	7,820
Loans provided during the year	59,846	5,604
Repaid loans	(15,258)	(3,053)
Total loans as of December 31, 2000	<u>54,959</u>	<u>10,371</u>

Facilities are provided to the following parties:

Alla Tkačenko	7,964	Loans
Evita Ostrovska	2,808	Loans
Vjačeslavs Kramnojs	9,195	Guarantees
Natalja Tkačenko	5,778	Loans
Oļegs Gerasimovs	6,301	Loans
A/s "Baltijas apdrošināšanas nams"	26,608	Loans
A/s "Belokon Holding"	15,325	Guarantees
SIA "Ribeksins-Baltija B"	29,867	Loans
SIA "Rīgas Originalajs"	81,390	Loans
SIA "Valērija Belokoņa izdevniecība"	5,500	Loans
SIA "Valērija Belokoņa izdevniecība"	3,500	Liabilities for loans' issuance
	<u>194,236</u>	

32. COMMITMENTS AND CONTINGENCIES

Off-balance sheet items

	2000	1999
Guarantees	39,845	11,660
Financial commitments	185,990	282,993
Liabilities for loans issuance	33,388	282,038
Letters of credit	151,718	-
Other liabilities	884	955
Foreign exchange transactions		
Forward foreign exchange receivable	7,643,454	5,293,557
Forward foreign exchange payable	7,668,714	5,293,557

On March 14, 2001 a legal claim against the Bank was initiated for the amount of LVL 48, 000. This claim is in the early stages of development.

33. BANK EMPLOYEES

The average amount of Bank employees was 115 in 2000. The remuneration of the Supervisory Council members constituted LVL 6,945 in 2000. The remuneration of the Executive Board members constituted LVL 12,310.

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34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over	Total
ASSETS							
Cash	259,035	-	-	-	-	-	259,035
Balances with the Central Bank	1,032,167	-	-	-	-	-	1,032,167
Claims to credit institutions	15,567,696	-	-	-	12,260	-	15,579,956
Loans to customers	1,135,170	1,514,455	2,682	34,704	2,063,497	135,736	4,886,244
Fixed income securities	-	-	120,212	4,314	197,688	351,819	674,033
Investments in associated companies	-	-	-	-	-	156,356	156,356
Fixed and intangible assets	-	-	-	-	-	1,333,896	1,333,896
Prepayments and accrued income	83,531	-	157	2,599	1,089	34,539	121,915
Other assets	928,147	-	-	-	-	60,161	988,308
Total assets	19,005,746	1,514,455	123,051	41,617	2,274,534	2,072,507	25,031,910
LIABILITIES							
Due to credit institutions	263,950	-	-	-	-	-	263,950
Customers’ deposits	17,793,522	2,047,782	993,921	145,071	26,120	676	21,007,092
Accrued expense	137,650	15,495	6,698	2,546	1,421	554	164,364
Other liabilities	139,861	-	-	-	-	-	139,861
Subordinated liabilities	-	-	-	-	364,051	629,756	993,807
Total liabilities	18,334,782	2,063,277	1,000,619	147,617	391,592	630,986	22,569,074
Off-balance sheet items	71,052	151,718	-	-	-	-	222,770
Maturity gap	599,711	(700,540)	(877,568)	(106,000)	1,882,942	1,441,521	2,240,066

The amounts above represent assets and liabilities grouped by maturity.

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35. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES

	LVL	USD	Other currencies	Total
ASSETS				
Cash and balances with the Central Bank	1,134,314	129,500	27,388	1,291,202
Claims to other credit institutions	24	11,175,246	4,404,686	15,579,956
Loans to customers	1,124,601	3,761,643	-	4,886,244
Investments in securities	-	395,171	-	395,171
Non-fixed income securities and investments in companies equity	76,410	202,452	-	278,862
Investments in associated companies	156,356	-	-	156,356
Intangible assets	41,678	-	-	41,678
Fixed assets	1,292,218	-	-	1,292,218
Other assets	36,787	951,520	1	988,308
Prepayments and accrued income	43,087	68,179	10,649	121,915
Total assets	3,905,475	16,683,711	4,442,724	25,031,910
LIABILITIES AND EQUITY				
Due to credit institutions	4,565	256,481	2,904	263,950
Customers' deposits	759,505	16,359,526	3,888,061	21,007,092
Other liabilities	42,061	75,783	22,017	139,861
Deferred income and accrued expense	22,966	135,432	5,966	164,364
Subordinated capital	142,252	851,555	-	993,807
Equity	2,462,836	-	-	2,462,836
Total liabilities and equity	3,434,185	17,678,777	3,918,948	25,031,910
Off-balance sheet items				
Guarantees	-	39,845	-	39,845
Liabilities to the clients	5,750	180,240	-	185,990
Foreign exchange receivables	515,300	4,256,978	2,871,176	7,643,454
Foreign exchange payables	1,440,150	3,214,943	3,033,621	7,688,714

Other currencies include EUR, GBP, RUB and UAH.

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36. REPRICING MATURITY ANALYSIS

	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year	No interest	Total
ASSETS							
Cash	-	-	-	-	-	259,035	259,035
Balances with the Central Bank	-	-	-	-	-	1,032,167	1,032,167
Claims to credit institutions	15,579,956	-	-	-	-	-	15,579,956
Loans to customers	4,886,244	-	-	-	-	-	4,886,244
Fixed income securities	524,040	-	-	-	149,993	-	674,033
Investments in associated companies	-	-	-	-	-	156,356	156,356
Fixed and intangible assets	-	-	-	-	-	1,333,896	1,333,896
Prepayments and accrued income	-	-	-	-	-	121,915	121,915
Other assets	-	-	-	-	-	988,308	988,308
Total assets	20,990,240				149,993	3,891,677	25,031,910
LIABILITIES							
Due to credit institutions	-	-	-	-	-	263,950	263,950
Customer deposits	21,007,092	-	-	-	-	-	21,007,092
Accrued expense	-	-	-	-	-	164,364	164,364
Other liabilities	-	-	-	-	-	139,861	139,861
Subordinated liabilities	993,807	-	-	-	-	-	993,807
Total liabilities	22,000,899	-	-	-	-	3,031,011	25,031,910
Off-balance sheet items	-	-	-	-	-	225,835	225,835

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37. CAPITAL ADEQUACY CALCULATION

According to the regulations of the Central Bank

		2000		1999	
	Risk degree	Amount	Risk weighted value	Amount	Risk weighted value
Cash and claims to the Central Bank	0%	1,291,202	0	1,237,929	0
Due to the credit institutions					
Claims to credit institutions registered at the OECD countries	20%	11,357,630	2,271,526	9,631,189	1,926,238
Due to the credit institutions registered in Latvia	20%	185,258	37,052	101,422	20,284
Short-term due to Latvian credit institutions	50%	245,200	122,600	-	-
Due to the credit institutions registered in non-OECD countries	100%	3,618,337	3,618,337	1,019,991	1,019,991
Other due to the credit institutions registered in non- OECD countries	100%	214,660	214,660	169,387	169,387
Securities and investments					
Due to the central governments of the OECD countries	0%	179,293	0	-	-
Due to the central governments of non-OECD countries denominated in the national currencies of these countries	50%	-	-	328,442	164,221
Due to the central governments of non-OECD countries, excluding those denominated in the national currencies of these countries	100%	155,919	155,919	-	-
Other fixed income securities	100%	65,885	65,885	-	-
Shares and other non-fixed income securities	100%	278,862	278,862	97,773	97,773
Investments in associated companies	100%	156,356	156,356	174,816	174,816
Loans to customers, net value					
Claims secured with fixed-term deposits	0%	49,860	0	2,039,208	0
Claims secured with mortgage, registered at State Land Authorities	50%	128,965	64,483	1,233,261	616,631
Due to the borrowers which are not credit institutions, excluding claims with the lower risk degree	100%	4,722,421	4,722,421	3,247,444	3,247,444
Prepayments and accrued income	50%	59,858	29,929	132,084	66,042
Fixed assets	100%	1,292,218	1,292,218	1,095,293	1,095,293
Other assets	100%	988,308	988,308	114,641	114,641
Total risk weighted assets value		<u>24,990,232</u>	<u>14,018,555</u>	<u>20,622,880</u>	<u>8,712,761</u>
Off-balance sheet items:					
Guarantees		39,845	27,585	11,660	0
Liabilities for loans issuance		33,388	26,207	282,993	254,032
Others liabilities		152,602	884	-	-
Total off-balance sheet items		<u>225,835</u>	<u>54,676</u>	<u>294,653</u>	<u>254,032</u>
Total risk weighted assets and off-balance sheet items value		<u>25,216,067</u>	<u>14,073,231</u>	<u>20,917,533</u>	<u>8,966,793</u>
Total capital equity Tier One elements		-	2,067,516	-	2,106,119
Total capital equity Tier Two elements		993,807	898,997	952,160	918,473
Equity value		<u>993,807</u>	<u>2,966,513</u>	<u>952,160</u>	<u>3,024,592</u>
CAPITAL ADEQUACY RATIO			21%		34%
Per Central Bank			<u>21%</u>		<u>34%</u>

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According to International Standards (Basle Capital Accord)

	Risk degree	2000		1999	
		Amount	Risk weighed value	Amount	Risk weighed value
Cash and claims to the Central Bank	0%	1,291,202	0	1,237,929	0
Claims to the credit institutions					
Claims to credit institutions registered at the OECD countries	20%	11,357,630	2,271,526	9,631,189	1,926,238
Due to the credit institutions registered in Latvia	20%	185,258	37,052	101,422	20,284
Short-term claims to Latvian credit institutions	20%	245,200	49,040	-	0
Due to the credit institutions registered in non-OECD countries	20%	3,618,337	723,667	1,019,991	203,998
Other claims to the credit institutions registered in non- OECD countries	20%	214,660	42,932	169,387	33,877
Securities and investments					
Claims to the central governments of the OECD countries	0%	179,293	0	-	-
Claims to the central governments of non-OECD countries denominated in the national currencies of these countries	20%	-	-	328,442	65,688
Claims to the central governments of non-OECD countries, excluding those denominated in the national currencies of these countries	100%	155,919	155,919	-	-
Other fixed-income securities	100%	65,885	65,885	-	-
Shares and other non-fixed income securities	100%	278,862	278,862	97,773	97,773
Investments in associated companies	100%	156,356	156,356	174,816	174,816
Loans to customers, net value					
Claims secured with fixed-term deposits	0%	49,860	0	2,039,208	0
Claims secured with mortgage, registered at State Land Authorities	50%	128,965	64,483	1,233,261	616,631
Claims to the borrowers which are not credit institutions, excluding claims with the lower risk degree	100%	4,722,421	4,722,421	3,247,444	3,247,444
Prepayments and accrued income	100%	59,858	59,858	132,084	132,084
Fixed assets	100%	1,292,218	1,292,218	1,095,293	1,095,293
Other assets	100%	988,308	988,308	114,641	114,641
Total risk weighted assets value		24,990,232	10,908,527	20,622,880	7,728,768
Off-balance sheet items:					
Guarantees		39,845	27,585	11,660	0
Liabilities for loans issuance		33,388	26,207	282,993	254,032
Others liabilities		152,602	884	-	-
Total off-balance sheet items		225,835	54,676	294,653	254,032
Total risk weighted assets and off-balance sheet items value		25,216,067	10,963,203	20,917,533	7,982,800
Total capital equity Tier One elements		-	2,109,194	-	2,109,194
Total capital equity Tier Two elements		993,807	898,997	952,160	918,473
Equity value		993,807	3,008,191	952,160	3,027,667
CAPITAL ADEQUACY RATIO			27%		38%
Per Basle Capital Accord					