LATVIJAS BANKA

CREDIT INSTITUTIONS SUPERVISION DEPARTMENT
ANNUAL REPORT 2000

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INTRODUCTION

In 2000, the Credit Institutions Supervision Department of the Bank of Latvia (hereinafter, the Credit Institutions Supervision Department) continued to enhance supervision of credit institutions to reach full compliance with the Basle Core Principles for Effective Banking Supervision. The Bank of Latvia conducted self-assessment in accordance with the Core Principles Methodology in structuring and presenting information for evaluating compliance. In July 2000, Latvia was graded as "compliant" with 17 of the 25 principles and "largely compliant" with eight principles. Experts from the International Monetary Fund conducted an independent evaluation of the Bank of Latvia's self-assessment, confirming that the information provided therein was correct, relevant and adequate. In 2000, the Bank of Latvia Board of Governors adopted a number of new banking regulations and amended the ones in force to continue the harmonisation of banking regulations with the requirements of EC banking directives and the Basle Core Principles for Effective Banking Supervision.

The 2000 Annual Report of the Credit Institutions Supervision Department is its second and last annual report. In 2000, the Saeima of the Republic of Latvia adopted the Law "On the Financial and Capital Market Commission". Pursuant to the Law, as of July 1, 2001, the Latvian financial and capital market is supervised by the Financial and Capital Market Commission, a newly established institution uniting the Credit Institutions Supervision Department, the Insurance Supervision Inspectorate and the Securities Market Commission.

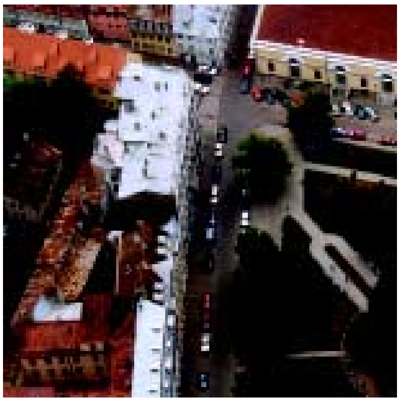
ECONOMIC ENVIRONMENT IN LATVIA IN 2000

In 2000, the Latvian economy was characterised by macroeconomic stability and growth across the majority of its sectors. The Bank of Latvia's stringent monetary policy fostered low inflation and provided for the stability of the national currency. The annual rate of inflation was within a range of 1.6%–3.7% (1.8% in December 2000; the average annual rate of inflation was 2.6%).

With domestic and foreign demand rising, GDP grew rapidly: in 2000, its annual growth was 6.6%. The share of the EU Member States in Latvia's foreign trade continued to expand. As the volume of exports and imports grew significantly in 2000, the foreign trade deficit increased by 87.0 million lats, whereas the excess of imports over exports did not change substantially (71.0% in 1999 and 70.9% in the reporting year). The inflow of foreign capital was sufficient to fully cover the deficit in the balance-of-payments current account, and in 2000, Latvia's balance of payments was in surplus. In December, the Bank of Latvia's net foreign assets equalled 3.4 months' imports. In 2000, the current account deficit declined by 79.0 million lats and was 6.8% of GDP (9.6% in 1999).

The unemployment rate fell from 9.1% at the beginning of 2000 to 7.8% in December. The country's fiscal situation was difficult and the fiscal deficit in the general government consolidated budget reached 2.8% of GDP; however, the deficit was below the level laid down in the Law "On the State Budget for 2000" (3.2% of GDP).

The international rating agencies *Moody's*, *Fitch IBCA* and *Standard & Poor'*s reiterated the previously assigned ratings, confirming the country's good growth prospects.



IMPROVEMENTS IN REGULATORY FRAMEWORK FOR ACTIVITIES OF CREDIT INSTITUTIONS

In 2000, the Bank of Latvia Board of Governors adopted a number of regulatory requirements in pursuit of compliance with the requirements of EC banking directives and the Core Principles for Effective Banking Supervision.

On January 13, 2000, the Bank of Latvia Board of Governors amended the "Regulation for Calculating Credit Institution Performance Indicators" (in effect as of January 31, 2000). Based on EC Directive 92/121/EEC "On the Monitoring and Control of Large Exposures of Credit Institutions", the amendments introduce exemptions from restrictions on exposures, where transactions are conducted between a credit institution and its subsidiaries, parent undertaking, or subsidiaries of its parent undertaking, provided they are credit institutions, financial institutions (except insurance companies), or ancillary undertakings, and their financial statements are consolidated for supervision purposes. As banks tend to delegate the provision of certain financial services, such as financial leasing, to their subsidiaries, the above exemptions are likely to promote the development of such undertakings. The regulation stipulates that credit institutions must receive the Bank of Latvia's permission to lift restrictions on exposures. The Bank of Latvia decides this issue on a case-by-case basis. Prior to allowing a credit institution to benefit from the above exemption, the Bank of Latvia ascertains that the banking group is transparent and consolidated supervision can be conducted efficiently.

In view of the need to implement EC Directive 93/6/EEC "On the Capital Adequacy of Investment Firms and Credit Institutions", which concerns capital requirements to cover market risks, the Bank of Latvia Board of Governors adopted the "Regulation for Calculating Capital Adequacy" on March 16, 2000. With the adoption of the new regulation, the previous procedure for calculating capital adequacy based on the evaluation of credit risk, which was laid down in the "Regulation for Calculating Credit Institution Performance Indicators" of May 17, 1996, was replaced. To achieve full compliance with EC directives, apart from the capital requirement for credit risk, the regulation envisages the imposing of capital requirements to cover market risks, including capital requirements with regard to foreign exchange risk, which is inherent in all activities of a credit institution, and position, commodities, settlement and counterparty risks, which are inherent in a credit institution's trading book. The regulation takes effect in stages. As of July 1, 2000, credit institutions are to calculate capital adequacy, taking into account credit risk and foreign exchange risk associated with assets and off-balance-sheet items. As of January 1, 2001, the calculation of capital adequacy includes the capital requirement for market risks inherent in the trading book. Only those credit institutions whose trading book exceeds the established limits are subject to capital requirements with regard to position, commodities, settlement and counterparty risks. Given the complex nature of the regulation, a detailed example has been provided to better disclose the new procedure for calculating capital adequacy.

To achieve full compliance with the recommendations of the Basle Committee on Banking Supervision, on May 24, 2000 the Bank of Latvia Board of Governors adopted the "Regulation for Compliance with Liquidity Requirements" (in effect as of July 1, 2000), which replaced Article 3 "Liquidity Requirements" of the "Regulation for Calculating Credit Institution Performance Indicators" of May 17, 1996. The Regulation details requirements to credit institutions' liquidity management policies. The procedures for preparing the "Report on the Term Structure of Assets and Liabilities" and "Calculation of the Liquidity Ratio" were retained unchanged.

In view of the introduction of capital requirements to cover market risks in the "Regulation for Calculating Capital Adequacy", the Bank of Latvia Board of Governors adopted the "Regulation for Compliance with Restrictions on Exposures" (in effect as of July 1, 2000). This regulation introduces the requirements of EC Directive 93/6/EEC "On the Capital Adequacy of Investment Firms and Credit Institutions" with regard to trading-book exposures. The regulation replaced Article 4 "Restrictions on Exposures" of the "Regulation for Calculating Credit Institution Performance Indicators" of May 17, 1996. Pursuant to the regulation, credit institutions whose trading book does not exceed the established limits (i.e., credit institutions that are exempt from capital requirements for position, commodities, settlement and counterparty risks) have to submit a condensed report on restrictions on exposures without segregating banking- and trading-book exposures. Credit institutions whose trading book exceeds the limits established in the Bank of Latvia's "Regulation for Calculating Capital Adequacy" have to prepare complete reports on restrictions on exposures, evaluating and stating separately exposures in the banking and trading books. Reports on restrictions on exposures have to be prepared on the last day of the reporting month. To derive more information for supervision purposes and to follow the requirements of EC Directive 92/121/EEC "On the Monitoring and Control of Large Exposures of Credit Institutions", a new reporting form, "Report on Exposures Exempt from Restrictions on Exposures", has been introduced. This report, which must be submitted to the Credit Institutions Supervision Department, reflects the situation as on June 30 and December 31.

To continue the harmonisation with the requirements of EC directives, the Bank of Latvia Board of Governors adopted the "Regulation for the Preparation of Credit Institution Investment Reports" (in effect as of July 1, 2000). This regulation replaced the "Regulation for Preparing Credit Institutions' Investment Reports" of September 17, 1998. The regulation was developed, based on the requirements of the Bank of Latvia's "Regulation for Calculating Capital Adequacy" and EC Directive 77/780/EEC "On the Coordination of Laws, Regulations and Administrative Provisions Relating to the Taking-up and Pursuit of the Business of Credit Institutions" (including Amendments 89/646/EEC). The regulation ensures control over the fulfilment of regulatory requirements laid down in the Law "On Credit Institutions" and stipulates procedures for preparing and submitting reports on credit institutions' investment (i.e., holdings in the share capital of undertakings and investment in movable property and real estate). The Regulation envisages that holdings taken over by a credit institution, investment in financial instruments of a trading book, holdings in ancillary undertakings, movable property and real estate that are necessary for rendering financial services, and movable property and real estate taken over by a credit institution are exempt from restrictions on exposures. To receive information on the movement of investments in the intra-reporting period on time (reports are to be submitted twice a year), credit institutions are required to inform the Credit Institutions Supervision Department in writing about acquiring a qualifying holding in the share capital of an undertaking, a credit institution, a financial institution or an ancillary undertaking 30 days prior to acquiring such holding.

To follow the requirements of the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity", on July 13, 2000 the Bank of Latvia

Board of Governors adopted the "Guidelines for Developing Procedures for Identifying Suspicious Financial Transactions". The Guidelines lay down core principles to be observed by credit institutions when working out and by January 1, 2001 adopting internal control procedures for identifying and avoiding suspicious financial transactions. The Guidelines establish the procedure for identifying the true beneficiary and require the introduction of "know-your-customer" rules in credit institutions and the awareness of customers' principal activities and cash flows associated with such activities.

SUPERVISION OF CREDIT INSTITUTIONS IN 2000

In 2000, positive development trends could be observed in the sector of credit institutions in Latvia.

In 2000, the Bank of Latvia issued credit institution operating licences to the Riga Branch of *Merita Bank Plc.* and six credit unions: *Savstarpējo ieguldījumu nams*, *Kauguru Kooperatīvā krājaizdevu sabiedrība*, *Lielvārdes Kooperatīvā krājaizdevu sabiedrība*, *Avots 37*, *Metalurgu kooperatīvā krājaizdevu sabiedrība* and *Allažu saime*. By the end of the year, the latter two had not been registered at the Enterprise Register of the Republic of Latvia and had not started operating.

In 2000, the Bank issued permits to reorganise a number of banks: the JSC Commercial Bank *Ventspils Apvienotā Baltijas Banka* was merged with the JSC *Hansabanka*, and the JSC *MeritaNordbanken Latvia* was registered as an undertaking other than a credit institution. The Riga Branch of *Société Générale* received the Bank of Latvia's permit to conduct voluntary liquidation. The credit institution operating licences of those credit institutions that ceased to exist as a result of reorganisation or voluntary liquidation were revoked.

In October 2000, the Bank of Latvia received documents from the JSC Bank *Venta*, which applied for the credit institution operating licence. After reviewing the submitted documents, which disclosed whether the bank's internal control system corresponded to its structure and organisation, showed founders' financial standing and confirmed the availability of funds in the amount of paid-up shares, the Bank of Latvia found non-compliance with the requirements of the "Regulation for Granting Credit Institution Operating Licences and Permits". In view of this, the Bank resolved not to license the JSC Bank *Venta*.

In September 2000, the Bank of Latvia received documents from the credit union *Latvijas Lauksaimniecības kameras krājaizdevu sabiedrība*, which applied for a credit institution operating licence. Its business plan for the first two years of operation, however, did not meet quality standards. The basic elements of the internal control system and the relevant policies and procedures did not follow Bank of Latvia regulations. The charter did not meet the requirements of Republic of Latvia laws and regulations. The Bank of Latvia resolved not to license this credit union.

The Credit Institutions Supervision Department ensured ongoing supervision by conducting, on a regular basis, off-site and on-site supervision.

In 2000, the Bank of Latvia purchased new software enabling supervisors to perform a more detailed and variegated analysis of credit institution performance indicators. Banks' assets have increased, the number of bank customers has grown, and banks have expanded their services. Hence, the importance of the internal control system at a bank, its enhancement and improvement are highlighted to provide for a prudent management of traditional and new risks. As part of the ongoing analysis of credit institutions' reports and on-site examinations, the focus is also on assessing credit institutions' risk management policies and procedures, the main effort being the assessment of policies and procedures with regard to new financial services.

The Bank of Latvia also directed its attention to the relationship between a credit institution and its customers, the quality of service extended to customers and protection of customers' interests. These issues acquire additional weight as trust operations by banks expand. During on-site examinations, the compliance of

procedures for trust operations with Bank of Latvia regulations and observance of customers' interests were evaluated.

In 2000, the Bank of Latvia's staff conducted 47 examinations, of which 35 were in banks. As in previous years, attention was mainly directed at the assessment of risk assets, analysis of internal control systems and evaluation of internal audit.

In 2000, loans granted increased substantially; and therefore, in bank examinations attention was increasingly paid to the assessment of borrowers' financial standing and solvency so as to timely detect difficulties that might arise in repaying loans.

A group of IT experts from the Bank of Latvia conducted audits of information systems in six banks, checking whether the Bank of Latvia's "Regulation for the Security of Bank Information Technologies" was observed and monitoring the use of new information technologies at banks.

In 2000, the Bank of Latvia decided to apply intensified supervision procedures at two banks; and therefore, employees of the Supervision Division of the Credit Institutions Supervision Department were appointed proxies in these banks. The task of a proxy is to make sure that intensified supervision procedures are observed, evaluate the financial standing of the bank and take measures to stabilise the bank's activity.

In March 2000, the Commission of Experts of the Council of Europe evaluated the capacity of Latvian financial institutions and law enforcement bodies to fight money laundering. The report of the Commission stresses that Latvia has succeeded in setting up a preventive system to fight money laundering in a quite short period of time (the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity" came into force on June 1, 1998); however, a certain scope of work remains to be completed. To follow the Commission's recommendations, the Bank of Latvia, when conducting on-site examinations at credit institutions, focused more on compliance with the requirements of the above Law. In 2000, the Credit Institutions Supervision Department started work on a new chapter in the *Supervisors' Manual*, disclosing the main goals of bank examinations and procedures to be observed when making assurance that banks follow the requirements of the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity", and the Bank of Latvia's "Guidelines for Developing Procedures for Identifying Suspicious Financial Transactions". Since the day the above Law took effect, 88% of all extraordinary and suspicious transactions reported to the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity (Disclosures Office) was transactions reported by banks.

In 2000, employees of the Credit Institutions Supervision Department started participating in the Latvian Danish Mortgage Project, whose aim was to investigate Republic of Latvia laws and regulations concerning mortgage lending (mortgage loans are loans against collateral of real estate with a subsequent issue of mortgage bonds), to give recommendations for updating it and to work out a framework for efficient supervision of mortgage lending (guidelines, the above-mentioned chapter of the *Supervisors' Manual*, recommendations for analysing bank reports).

In view of the complicated nature of the "Regulation for Calculating Capital Adequacy" adopted by the Bank of Latvia Board of Governors on March 16, 2000 and the short time frame for implementing the regulation, the Bank of Latvia concluded an agreement on assistance in methodology issues with the audit company *Arthur Andersen* in November 2000. Pursuant to the agreement, *Arthur*

Andersen worked out the sample policy with regard to the trading book, checked the sample calculation of capital adequacy prepared by the Credit Institutions Supervision Department and recognised that methodologies used therein complied with the requirements of EC directives concerning capital adequacy. Within the framework of the agreement, the Department's employees attended workshops on market risks and financial instruments.

In 2000, employees of the Credit Institutions Supervision Department improved their professional skills by participating in seminars, courses and conferences both in Latvia and abroad, during which they learnt the latest information on supervision of credit institutions.

At the end of 1998, the Bank of Latvia signed agreements on cooperation with the Securities Market Commission and the Insurance Supervision Inspectorate to exchange information necessary in discharging supervisory functions. The agreement envisaged information exchange with regard to the organisation and management of financial market participants, their strategies, shareholders and owners, investment activities and other issues. Cooperation within the framework of the above agreements allowed the Bank to achieve the desired results, and information exchange was efficient and met the needs of the institution requiring information.

Cognisant of the important role that cooperation among supervisory authorities plays in cross-boarder banking supervision, the Bank of Latvia concluded a number of agreements on cross-boarder supervision in 2000: in March, with the Bank of Estonia, in June, with the Bank of Lithuania; and in July, with the German Federal Banking Supervisory Office *(Bundesaufsichtsamt für das Kreditwesen)*. A draft agreement on cooperation was coordinated with the Swedish Financial Supervisory Authority *(Finansinspektionen)*[1].

[1] The agreement was concluded on April 2, 2001.

CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

The Core Principles for Effective Banking Supervision, developed by the Basle Committee on Banking Supervision and published in September 1997, are an important and comprehensive international standard for effective banking supervision. The principles have been designed in collaboration with a number of supervisory authorities throughout the world and comprise the expertise acquired in this field. The 25 principles form the basis for any effective supervisory system, and cover preconditions for effective banking supervision, licensing, prudential regulations and requirements, methods of ongoing banking supervision, information requirements, formal powers of supervisors and cross-boarder banking.

The objective of the Bank of Latvia is to discharge its functions of a supervisory authority by applying all Basle Core Principles for Effective Banking Supervision thus facilitating the banking sector's soundness and stability. The first and foremost task is to evaluate the compliance of the regulatory framework and Bank of Latvia supervisory practices with the Basle Core Principles for Effective Banking Supervision and decide on further relevant improvements. In 2000, the Credit Institutions Supervision Department conducted self-assessment of the compliance of its regulations and supervisory practices with the Basle Core Principles for Effective Banking Supervision. The assessment followed the Core Principles Methodology in structuring and presenting information for evaluating compliance. In July 2000, Latvia was graded as "compliant" with 17 of the 25 principles and "largely compliant" with eight principles. Upon the Bank of Latvia's request, experts from the International Monetary Fund conducted an independent evaluation of the self-assessment. The evaluation confirmed that the information provided in the Bank of Latvia's self-assessment was correct, relevant and adequate.

Preconditions for Effective Banking Supervision

Framework and Coordination

Principle 1:

1.1 *An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banking organisations.*

Compliant. In Latvia, credit institutions are supervised by the Bank of Latvia, whose responsibilities, tasks and rights are set out in the Laws "On the Bank of Latvia" and "On Credit Institutions". Pursuant to the Law "On Credit Institutions", the Bank of Latvia issues and revokes credit institution operating licences (permits), and conducts the supervision of credit institutions in accordance with Republic of Latvia laws and Bank of Latvia regulations. Banking laws and regulations are revised and amended on a regular basis, to follow tendencies in the development of the banking sector, supervisory practices and, in view of Latvia's preparation for accession to the EU, to incorporate EU requirements in Latvian banking laws and regulations. Within their competence, the Bank of Latvia and other institutions involved in the supervision of financial institutions exchange information for supervision purposes. Securities transactions of credit institutions are also supervised by the Securities Market Commission.

1.2 *Each such agency should possess operational independence and adequate resources.*

Compliant. The Bank of Latvia is not subject to decisions and regulations adopted by the Government or its agencies, is independent in decision making and their practical implementation, and has adequate financial resources and staff to fulfil its tasks with regard to the supervision of credit institutions in due course of law. The Governor of the Bank of Latvia is elected by the Saeima.

The Board of Governors of the Bank of Latvia reviews and approves the Bank's annual budget. Pursuant to the Law "On the Bank of Latvia", all expenses of the Bank are financed from the Bank's income. Employees of the Credit Institutions Supervision Department are qualified and professional, and regularly receive training to upgrade their skills; moreover, the technical support is adequate to ensure high quality supervision. Likewise, they may seek the assistance of external experts.

***1.3** A suitable legal framework for banking supervision is also necessary, including provisions relating to authorisation of banking organisations and their ongoing supervision.*

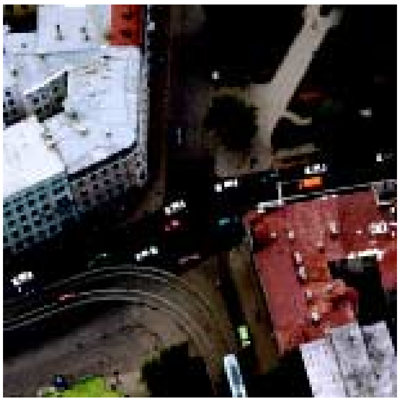
Compliant. The activity of credit institutions is subject to the Law "On Credit Institutions", which stipulates the legal status of credit institutions and lays down the framework for their activity and supervision. Likewise, the Law establishes procedures for issuing and revoking credit institution operating licences and requirements to banking activities, and describes insolvency, bankruptcy, rehabilitation and liquidation processes. To reinforce and expand the requirements of the Law "On Credit Institutions", the Bank of Latvia is entitled to adopt other requirements regulating the activities of credit institutions with the aim of mitigating operational risks and protecting creditors' interests. Credit institutions are bound by Bank of Latvia regulations on requirements governing the activity of credit institutions, on calculation of credit institution performance indicators and the procedure for submitting reports, where such regulations follow the requirements of the Law "On Credit Institutions". Credit institutions must submit to the Bank of Latvia all information it requires to perform its functions, and to observe the deadlines set by the Bank.

***1.4** A suitable legal framework for banking supervision is also necessary, including powers to address compliance with laws as well as safety and soundness concerns.*

Compliant. The Law "On Credit Institutions" establishes the rights and powers of the Bank of Latvia to act so as to achieve the compliance of credit institutions with the law and Bank of Latvia regulations. The Bank of Latvia has the right to advise credit institutions on the desired course of their activity, apply the intensified supervision procedure, i.e. to take the following measures: warn the credit institution; partly or fully suspend financial operations of the credit institution; appoint a proxy; and impose a fine upon the credit institution. Pursuant to Republic of Latvia laws, proceedings may be instigated against credit institutions (administrative proceedings) and natural persons (administrative or criminal proceedings) who have deliberately rendered false or incomplete information or have concealed information required by law, and failure to comply with requirements governing the activity of credit institutions and Bank of Latvia regulations.

***1.5** A suitable legal framework for banking supervision is also necessary, including legal protection for supervisors.*

Compliant. In accordance with the Latvian Civil Law and the Civil Process Law, a complaint or a claim on the compensation of loss and damages may be lodged only against a person on whose behalf the action was undertaken or the decision taken (when performing supervision, all decisions and actions that relate to a particular credit institution are made on behalf of the Bank of Latvia). Likewise, under the Civil Law, the employer (the Bank of Latvia) is not responsible for losses incurred by a third party, provided its employee has discharged his/her duties in a professional



manner and in good faith, because, to claim the compensation of loss and damages, it is necessary to establish that the losses were incurred as a result of an illegal action.

1.6 Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

Compliant. Pursuant to the Law "On Credit Institutions", the Bank of Latvia and authorities supervising Latvian financial institutions exchange, upon mutual agreement, information needed to perform supervision. Such information is regarded as confidential. At the end of 1998, the Bank of Latvia concluded agreements on cooperation with the Securities Market Commission and the Insurance Supervision Inspectorate. These agreements envisage information exchange on the organisation of financial market participants, their management, strategy, shareholders and owners, investments, and other information needed for the purposes of supervision.

The Law "On Credit Institutions" stipulates that the Bank of Latvia, upon mutual agreement and on terms of confidentiality, is entitled to disclose confidential information to foreign supervisory institutions for the purposes of supervision, provided legislation in their home country envisage liability for disclosing confidential information.

The Bank of Latvia discloses information on a credit institution's activity only in due course of law to the court and the prosecutor's office, the State Police, the State Revenue Service and the Disclosures Office. The Law "On Credit Institutions" prescribes liability for an unauthorised disclosure of information.

Licensing Process and Structure

Permissible Activities

Principle 2: *The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word "bank" in names should be controlled as far as possible.*

Compliant. The Law "On Credit Institutions" lists permissible activities of credit institutions. Pursuant to the above Law, only those credit institutions that have a credit institution operating licence issued by the Bank of Latvia may use the wording "credit institution", "bank", "credit union" and any combination of these either in their name or for marketing purposes. Only credit institutions are allowed to advertise the acceptance of deposits and other repayable funds and to receive them. A credit institution may accept deposits from natural persons, provided it has been licensed to render this type of financial services.

Scope of Licensing

Principle 3: *The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organisation's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.*

Compliant. Pursuant to the Law "On Credit Institutions", credit institutions, their branches and representative offices may start their activity in Latvia only after they have received a licence (permit) issued by the Bank of Latvia. The Bank of Latvia's "Regulation for Granting Credit Institution Operating Licences and Permits" specifies the procedure for granting licences (permits) to credit institutions. The minimum founding share capital of a bank is the lats equivalent of five million euros according to the exchange rate set by the Bank of Latvia. The Bank of Latvia establishes criteria for principal shareholders, follows that the structure of a credit institution's owners is transparent, checks the availability and amount of free capital, and ensures an adequate internal control system. When reviewing a new credit institution's application for a licence, the Bank of Latvia evaluates the credit institution's strategies described in its business plan, financial projections for the first two years of operation, marketing plan and organisational structure, which explicitly reveals the responsibilities and rights of the members of its board and executive board, defines the tasks of its organisational units and managers' responsibilities. Where a foreign bank wishes to open a branch in Latvia, it has to submit to the Bank of Latvia a permit issued by the supervisory authority of its home country. The Bank of Latvia has the right to refuse a licence to a new credit institution, if during the founding of the credit institution Republic of Latvia laws and Bank of Latvia regulations have been violated and the intended activity of the credit institution does not correspond to the interests of the Latvian State.

Ownership Structure

Principle 4: *Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.*

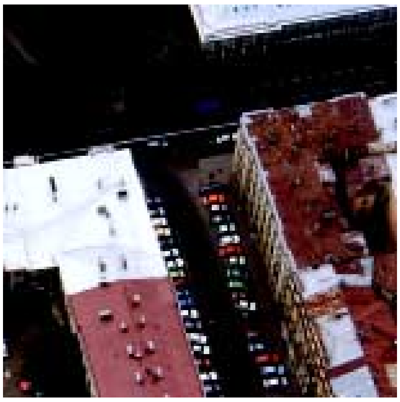
Compliant. The Law "On Credit Institutions" stipulates that a natural or a legal person who wishes to acquire or increase a qualifying holding in a bank (a direct or an indirect holding that represents 10 per cent or more of the share capital or voting shares of a bank, or that makes it possible to exercise a significant influence over a bank's activity) must receive the Bank of Latvia's permission. The Bank of Latvia is entitled to require additional information on such persons to verify their identity and to grant or refuse its permission. Prior to obtaining the Bank of Latvia's permission, voting rights attached to the acquired or increased qualifying holding cannot be exercised. Only after the Bank's permission to directly or indirectly acquire or increase a qualifying holding in a bank has been received, the bank may make a mark in the register of shareholders, confirming the change of ownership.

Acquisitions and Investments

Principle 5: *Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.*

Largely compliant. The Law "On Credit Institutions" establishes the upper limit for investments in share capital of non-financial undertakings: the qualifying holding in the share capital of an undertaking other than a credit or financial institution must not exceed 15 per cent of the bank's own funds; and the total amount of such holdings must not exceed 60 per cent of the bank's own funds. Investment of a credit institution in the movable property and real estate, or its holdings in the share capital of undertakings other than a credit or financial institution, provided such property is not necessary to render financial services and has not been taken over by the credit institution as collateral for an unpaid loan for a period of up to two years, shall not in total exceed the credit institution's own funds. The Bank of Latvia has to be notified prior to acquiring any qualifying holding.

To ensure full compliance with this principle, amendments to the Law "On Credit Institutions" have been drafted. In accordance with the draft amendments, the Bank of Latvia has the right to prohibit banks from establishing a close relationship with third parties and to require the termination of such relationship. Likewise, banks are



required to seek the Bank of Latvia's consent prior to acquiring a qualifying holding and making investments.

Prudential Regulations and Requirements

Capital Adequacy

Principle 6: *Banking supervisors must set prudent and appropriate minimum capital adequacy requirements for all banks. Such requirements should reflect the risks that the banks undertake, and must define the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, these requirements must not be less than those established in the Basle Capital Accord and its amendments.*

Largely compliant. The Law "On Credit Institutions" states that the ratio of own funds to total risk-weighted assets and off-balance-sheet items (capital adequacy) must not fall below 10 per cent. The definition of a credit institution's own funds and methods for calculating the capital adequacy ratio are set out in Bank of Latvia regulations, which follow the Basle Capital Accord and are even stricter in some cases. When calculating capital adequacy, the risk-weighted value of assets and off-balance-sheet items is determined on the basis of credit and foreign exchange risks inherent in the particular item. As of January 1, 2001, the capital adequacy calculation has been expanded to include requirements to a credit institution's trading book with regard to other market risks, where the trading book exceeds the established limits. This ensures full compliance with the above principle. Own funds are divided in Tier I and Tier II capital elements. Tier II capital elements in total must not exceed Tier I capital elements. This division is based on the sources of capital. Upon the Bank of Latvia's permission, it is possible to use Tier III capital to partly meet capital requirements for market risks (up to 66.7 per cent). Pursuant to the Law "On Credit Institutions", credit institutions that are subject to consolidated supervision calculate capital adequacy based on consolidated financial statements. The capital adequacy calculation has to be submitted to the Bank of Latvia on a monthly basis. If the capital adequacy ratio of a credit institution falls below 10 per cent, the Bank of Latvia, pursuant to the Law "On Credit Institutions", may apply intensified supervision, within its framework warning the credit institution, fully or partially restricting its activities and appointing a proxy. This has been applied on several occasions.

Lending and Investment Policies

Principle 7: *An essential part of any supervisory system is the evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios.*

Compliant. Pursuant to the Law "On Credit Institutions", a credit institution must grant loans in accordance with its lending policy, which specifies lending and repayment procedures, principles for monitoring loans outstanding and criteria for assessing the quality of the loan portfolio. The Bank of Latvia's "Guidelines for Establishing an Internal Control System in Credit Institutions" require credit institutions to develop and implement policies and procedures for managing major risks. Where a credit institution makes investments and their value is considerable, the Bank of Latvia requires the credit institution to work out the investment policy. Policies have to be approved by the credit institution's board, revised at least once a year and known to all employees involved in the relevant process. During on-site examinations, the Bank of Latvia's supervisors check whether lending policies and, where appropriate, investment policies and procedures are observed and whether they are revised and updated on a regular basis.

Asset Quality

Principle 8: *Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and loan loss reserves.*

Compliant. Pursuant to the Bank of Latvia's "Regulation for Evaluating Assets and Off-Balance-Sheet Liabilities", credit institutions must evaluate assets and off-balance-sheet liabilities at least once a quarter and make adequate provisions. Likewise, credit institutions have an obligation to develop the policies and procedures for evaluating the quality of assets and the adequacy of provisions, observing the consistency and prudence principles. During on-site examinations, the Bank of Latvia's supervisors assess the loan portfolio and other risk assets and off-balance-sheet liabilities, and evaluate the timeliness and adequacy of provisions against losses. Particular attention is paid to the efficiency of the relevant policies and procedures. If necessary, a credit institution may be asked to revise and update the relevant policies and procedures.

Management Information Systems and Prudential Limits

Principle 9: *Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.*

Compliant. The Law "On Credit Institutions" prescribes that exposure to a single customer or a group of connected customers must not exceed 25 per cent of a credit institution's own funds, and the total of large exposures (those exceeding 10 per cent of a credit institution's own funds) must not exceed a credit institution's own funds more than eightfold. Credit institutions have to work out policies and procedures with regard to exposures. All credit institutions must have management information systems that cover all material risks. On a monthly basis, banks report to the Bank of Latvia on large exposures and compliance with restrictions on exposures. Likewise, credit institutions regularly submit to the Bank of Latvia information on loans to residents, types of loans and the sectoral breakdown of loans, and information on claims on non-residents in breakdown by country. Credit institutions that are subject to consolidated supervision submit consolidated reports on large exposures on a quarterly basis. During examinations, supervisors assess whether credit institutions comply with the above requirements and whether reports on exposures are correct and true.

Connected Lending

Principle 10: *In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.*

Compliant. The Law "On Credit Institutions" stipulates that total exposure to persons related to a credit institution must not exceed 15 per cent of the credit institution's own funds. Loans that exceed the amount of 1 000 lats may be granted to a person related to a credit institution only upon a unanimous decision by the executive board of the credit institution. Once a month credit institutions submit to the Bank of Latvia a report on transactions with related parties, disclosing the amount and type of exposures as well as the identity of related parties. The Bank of Latvia verifies whether these reports are true and comply with the regulatory requirements.

Country and Transfer Risk

Principle 11: *Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks.*

Compliant. Credit institutions have to develop a policy for managing country risk and related procedures, stating restrictions on exposures to country risk and procedures for setting, observing and controlling such restrictions. A report on country risk, which includes information on exposures to individual countries and transfer of country risk, has to be submitted on a monthly basis. The Bank of Latvia has imposed restrictions on exposures to Zone B countries (non-OECD countries): a credit institution's exposure to residents of a single Zone B country may not exceed 25 per cent of the credit institution's own funds (50 per cent of the credit institution's own funds, where exposure is to residents of Estonia and Lithuania), while its total exposure to residents of all Zone B countries may not exceed own funds more than twofold. Pursuant to the Bank of Latvia's "Regulation for Assessing Assets and Off-Balance-Sheet Liabilities", country risk is one of the criteria for assessing a borrower's creditworthiness and establishing the amount of provisions; and therefore, when evaluating loans, banks must take into account country risk. During on-site examinations, management information systems, policies for managing country risk and compliance with related procedures, and the efficiency of internal controls are evaluated.

Market Risk Management

Principle 12: *Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.*

Largely compliant. The Law "On Credit Institutions" establishes limits on the net open foreign exchange position in a single currency (10 per cent of own funds) and the total net foreign exchange position (20 per cent of own funds). Likewise, the "Regulation for Calculating Capital Adequacy" lays down requirements to the total net foreign exchange position. As of January 1, 2001, when capital requirements with regard to other market risks (position, commodities, settlement and counterparty risks) are in force, full compliance with this principle has been achieved. Credit institutions must develop a policy with regard to the trading book, setting limits for various market risks, e.g., limits for dealers, transactions, financial instruments and counterparties. During on-site examinations at credit institutions, supervisors assess compliance with the relevant policies and procedures, including procedures for setting and observing limits and the efficiency of the internal control system.

Risk Management

Principle 13: *Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital against these risks.*

Largely compliant. The Bank of Latvia's "Guidelines for Establishing Internal Control System in Credit Institutions" stipulate that credit institutions must develop and implement the required policies and control procedures for managing all material quantitative risks, as well as apply appropriate procedures to reduce risks that cannot be quantified (e.g., operational risk, fraud, embezzlement, repute risk, legal risk).

Pursuant to the Bank of Latvia's "Regulation for Compliance with Liquidity Requirements", each credit institution must maintain liquid assets in the amount adequate to meet the legally valid claims of its creditors at any time, and such assets must not fall below 30 per cent of current liabilities. To ensure the security of IT systems, banks have to comply with the Bank of Latvia's "Regulation for the Security of Bank Information Technologies", which lays down procedures for protecting their information and technical resources. The Bank of Latvia has a group of IT experts for auditing banks' information systems. To achieve full compliance with this principle, guidelines for managing interest rate risks have to be worked out.

Internal Controls

Principle 14: *Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.*

Compliant. Pursuant to the Law "On Credit Institutions", a credit institution must have an effective internal control system and is responsible for ensuring its functioning to achieve the identification, analysis and management of all material operational risks. Likewise, a credit institution must safeguard its assets, ensure that its information to the management is true and timely, and comply with Republic of Latvia laws and Bank of Latvia regulations, its own policies and procedures. Pursuant to the Bank of Latvia's "Guidelines for Establishing an Internal Control System in Credit Institutions", an internal control system includes activity planning, the organisational structure of a credit institution, risk management, appropriate accounting and a management information system. When setting up an internal control system, a credit institution must take into account the adopted strategies, the scope of operation, opportunities for identifying material risks, the adequacy of the accounting system, the security of assets and information systems, as well as possibilities for reviewing and updating the system, where necessary. A credit institution must segregate duties and functions, such as execution of transactions, cross-checking and making book entries. A credit institution must establish internal audit function to ensure an independent supervision of the internal control system. Pursuant to the Law "On Credit Institutions", annual financial statements are audited by external auditors, which are approved by the Bank of Latvia.

Know Your Customer

Principle 15: *Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.*

Compliant. Pursuant to the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity", credit institutions report about unusual financial transactions that have at least one of the features specified in the list of indicators of unusual transactions, which is approved by the Cabinet of Ministers, and other transactions that cause suspicion that legalisation of illegal proceeds, or attempt thereof is taking place. Likewise, credit institutions must develop internal control procedures to comply with the requirements of the above law. To assist credit institutions in identifying suspicious transactions and to prevent such transactions, the Bank of Latvia has developed "Guidelines for Developing Procedures for Identifying Suspicious Financial

Transactions", which require credit institutions, where they suspect that a customer acts on behalf of a third party, to take measures to identify the true beneficiary. Likewise, employees of credit institutions must know the business activities of a customer and the related cash flows. During on-site examinations, the Bank of Latvia verifies the relevant control procedures. The Bank of Latvia has an obligation to report to the Disclosures Office about financial transactions that have features specified in the list of indicators of unusual transactions, where a credit institution has not done so.

Methods of Ongoing Banking Supervision

On-site and Off-site Supervision

Principle 16: *An effective banking supervisory system should consist of some form of both on-site and off-site supervision.*

Compliant. To ensure ongoing banking supervision, the staff of the Supervision Division of the Credit Institutions Supervision Department conducts both on-site and off-site supervision. Off-site supervision relies on regular statistical reports and reports on compliance with regulatory requirements. Pursuant to the Law "On Credit Institutions", the Bank of Latvia inspects activities of credit institutions at least once a year. During on-site examinations, supervisors examine source documents to check whether a credit institution's activities comply with Republic of Latvia laws, Bank of Latvia regulations and requirements, as well as relevant policies and procedures. Employees of the Credit Institutions Supervision Department perform their duties pursuant the core principles for on-site examinations and analysis of credit institutions' assets and risks as defined in the *Off-site Supervision Procedures* and *Supervisors' Manual*.

Supervisory Contact

Principle 17: *Banking supervisors must have regular contact with bank management and a thorough understanding of the institution's operations.*

Compliant. On-site and off-site supervisors of the Credit Institutions Supervision Department maintain regular contacts with credit institutions' management to analyse and assess the soundness and stability of individual institutions. Likewise, they meet with the senior management to discuss development strategies and trends, the efficiency of organisational units of a credit institution, risk management and other significant issues. Pursuant to the Law "On Credit Institutions", a credit institution must inform the Bank of Latvia on all the circumstances that could substantially influence its future activity. The Bank of Latvia has established the Committee on Supervision of Credit Institutions, which consists of the members of the Bank of Latvia Board of Governors. Where necessary, it convenes to analyse problems related to activities of credit institutions.

Reports and Returns

Principle 18: *Banking supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on a solo and consolidated basis.*

Compliant. Pursuant to the Law "On Credit Institutions", a credit institution must submit to the Bank of Latvia all information that the Bank requires for supervisory purposes, and observe the deadlines set by the Bank of Latvia. Credit institutions regularly submit reports on both a solo and consolidated basis, and all reports are checked using mathematical and logical methods and thereafter analysed. Reports on the balance sheet and condensed balance sheet, the profit and loss statement, compliance with regulatory requirements and other issues are used for the day-to-day supervision purposes to analyse trends in the banking sector. Where a credit institution fails to submit information required by the Bank of Latvia by the deadline, a fine may be imposed on such credit institution. Two Bank of Latvia databases, which hold information from credit institutions' reports, allow supervisors to view time series and obtain information on shareholders, management, foundation, organisation of credit institutions and other issues.

On-site Examinations and External Audit

Principle 19: *Banking supervisors must have a means of independent validation of supervisory information either through on-site examinations or use of external auditors.*

Compliant. Reports submitted to the Bank of Latvia are audited at least once a year during on-site examinations. For the purposes of planning, conducting and reporting on examinations, on-site supervisors use the *Supervisors' Manual*, which contains detailed descriptions of each activity to be examined, objectives of and procedures for examination. Occasionally, the Bank of Latvia also asks internationally recognised auditing companies to conduct the audit of semi-annual financial statements or examinations with a focus on individual areas of activity and their internal control. Supervisors verify whether their reports have been true by analysing audited annual financial statements of credit institutions. As required by the Law "On Credit Institutions", the Bank of Latvia approves a list of auditors that are entitled to audit annual financial statements of credit institutions in accordance with International Standards on Auditing.

Consolidated Supervision

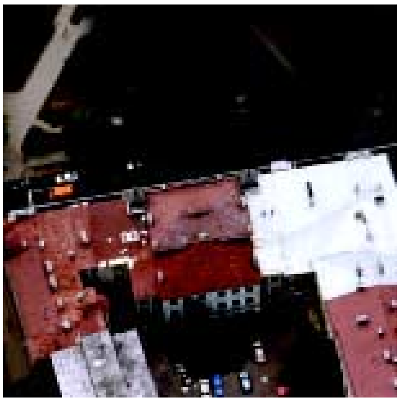
Principle 20: *An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis.*

Largely compliant. A credit institution that is either the parent undertaking of other credit or financial institutions, or a direct or an indirect owner of 20 or more per cent of share capital or voting shares in other credit or financial institutions, or whose parent undertaking is registered in Latvia as a financial holding company must comply with the requirements governing the activity of credit institutions on the consolidated basis. Pursuant to the Law "On Credit Institutions", the Bank of Latvia is entitled to conduct on-site examinations in undertakings whose financial statements are consolidated, in order to verify whether the received information is true. To ensure full compliance with this principle, amendments to the Law "On Credit Institutions" have been drafted. The draft amendments establish the Bank of Latvia's right to request any credit institution to terminate close relations with third parties (including associates), or prohibit it from transacting with such parties, where such relations can endanger the credit institution's stability or hinder the Bank of Latvia in discharging its supervisory function. Prior to establishing close links, a credit institution must seek the Bank of Latvia's consent.

Information Requirements

Adequate and True Records

Principle 21: *Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.*



Compliant. Credit institutions must maintain their accounting records in accordance with International Accounting Standards, the Republic of Latvia Law "On Bookkeeping" and Bank of Latvia regulations. The Bank of Latvia controls and ensures an ongoing assessment of credit institutions' accounting policies and analyses procedures for accounting, control, evaluation and preparation of financial statements. Fair and true book entries are the responsibility of the chairman of a credit institution's executive board. Pursuant to the Law "On Credit Institutions", credit institutions prepare annual financial statements, which are audited by auditing companies authorised by the Bank of Latvia (those of credit unions, by individual auditors). After the annual financial statements have been approved, a credit institution publishes its condensed annual financial statements and the auditors' opinion in the press. At the same time, the complete annual financial statements must be readily available at the credit institution. Each quarter banks that are entitled to accept deposits from natural persons publish their balance sheet and profit and loss statement in the official journal *Latvijas Vēstnesis*. Where own funds do not correspond to the Bank of Latvia's evaluation, the Bank gives its comments.

Formal Powers of Supervisors

Corrective Measures

Principle 22: *Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking licence or recommend its revocation.*

Largely compliant. The Law "On Credit Institutions" prescribes the Bank of Latvia's actions, where a credit institution fails to comply with regulatory requirements as set by law, Bank of Latvia regulations, restrictions, or where the security of depositors has been threatened. The Bank of Latvia is empowered to apply administrative punitive measures to such credit institution, to restrict, partly or in full, its activities until the credit institution takes adequate remedial actions, or to revoke a credit institution's licence where the credit institution's non-compliance is material and long-term. Administrative or criminal proceedings may be instigated against a natural person. The Bank of Latvia has the right to appoint its proxy as part of intensified supervision. The Bank's proxy independently evaluates the condition of a credit institution and is empowered to undertake measures necessary to stabilise a credit institution's activities. To ensure full compliance with this principle, amendments to the Law "On Credit Institutions" have been drafted. The draft amendments authorise the Bank of Latvia to discontinue any activity of a credit institution, where this activity threatens or could threaten the credit institution's soundness and stability.

Cross-Border Banking

Supervision of Bank Branches Opened in a Foreign Country

Principle 23: *Banking supervisors must practise global consolidated supervision over their internationally active banking organisations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organisations worldwide, primarily at their foreign branches, joint ventures and subsidiaries.*

Largely compliant. Pursuant to the Law "On Credit Institutions", the Bank of Latvia conducts supervision on the consolidated basis, and is empowered to conduct on-site examinations at undertakings whose financial statements are consolidated with the financial statements of a credit institution that is subject to consolidated supervision. A credit institution must ensure that in all undertakings of a banking consolidation group there is an effective internal control system, which is a precondition for true information for supervision purposes, and a risk management system, which allows the credit institution to ensure an ongoing monitoring of exposures within the group. The Bank of Latvia's "Regulation for Granting Credit Institution Operating Licences and Permits" authorises the Bank of Latvia to issue to banks permits to open branches abroad, provided the legislation of the host country permits the Bank of Latvia to carry out regular examinations at foreign branches of Latvian banks and does not prohibit such branches from rendering the relevant information to the Bank of Latvia. To ensure full compliance with this principle, amendments to the Law "On Credit Institutions" have been prepared. The draft amendments authorise the Bank of Latvia to request any credit institution to terminate close links with third parties (including associates), or prohibit any credit institution from entering into transactions with such third parties, where this could threaten its stability or hinder the Bank of Latvia in discharging its supervisory function. Likewise, these amendments envisage that prior to establishing close links, a credit institution must seek the Bank of Latvia's consent.

International Co-ordination

Principle 24: *A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities.*

Largely compliant. Pursuant to the Law "On Credit Institutions", the Bank of Latvia has the right, upon mutual agreement and on terms of confidentiality, to disclose to foreign supervisory authorities confidential information for supervision purposes. On July 19, 2000, the Bank of Latvia signed an agreement on cooperation with the Bank of Lithuania, which is a host supervisory authority for a subsidiary of a Latvian bank. The agreement determines the responsibilities of the home and host country supervisory authorities and the procedures for information exchange. Full compliance with this principle will be achieved after the implementation of the agreement.

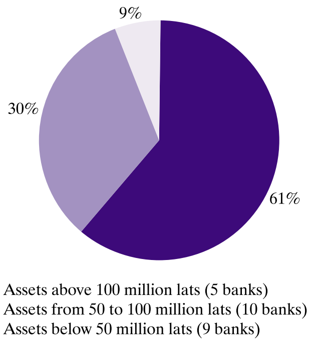
National Treatment

Principle 25: *Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.*

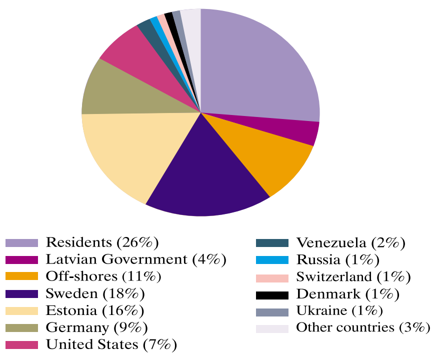
Compliant. The Bank of Latvia also supervises subsidiaries and branches of foreign banks. One and the same Republic of Latvia laws and Bank of Latvia regulations apply to the supervision of branches and other banks. The only difference is in the prudential reporting requirements for branches of foreign banks: as branches have no share capital, they are not required to submit reports on indicators, which are calculated on the basis of share capital. A foreign bank that wishes to obtain a licence to open a branch must meet the following requirements: the banking supervisory authority of its home country, on the basis of globally consolidated financial statements, must guarantee adequate, complete and effective banking supervision that complies with international standards for banking supervision. In Latvia, foreign supervisory authorities are entitled to inspect branches and representative offices of banks of their country as well as banks whose parent undertakings are banks of their country. In its capacity as a host country supervisory authority, the Bank of Latvia has signed agreements on cooperation with the supervisory authorities of Finland, Estonia, Germany and Lithuania.

Chart 1

BANKS BY AMOUNT OF THEIR ASSETS
(at end of 1999; %)



(at end of 2000; %)



STRUCTURE OF THE BANKING SECTOR

Development of Banks

At the end of 1999, in Latvia, there were 23 banks, the Riga Branch of *Société Générale* (France) and the representative office of *Dresdner Bank AG* (Germany).

In 2000, the Bank of Latvia licensed the Riga Branch of *Merita Bank Plc.* (Finland).

The Bank of Latvia issued permits to reorganise a number of banks: the JSC Commercial Bank *Ventspils Apvienotā Baltijas Banka* was merged with the JSC *Hansabanka*, and the JSC *MeritaNordbanken Latvia* was registered as an undertaking other than a credit institution. The Riga Branch of *Société Générale* received the Bank of Latvia's permit to conduct voluntary liquidation. The credit institution operating licences of those credit institutions that ceased to exist as a result of reorganisation or voluntary liquidation were revoked.

At the end of 2000, in Latvia, there were 21 banks (see Appendix 1), the Riga Branch of *Merita Bank Plc.* (hereinafter, a bank) and the representative office of *Dresdner Bank AG*.

Capital concentration in the Latvian banking sector continued. Larger banks' assets accounted for an increasing share of the banking sector's assets (for banks in breakdown by the amount of assets, see Chart 1).

ACTIVITIES OF BANKS

Assets

In 2000, banks had overcome the consequences of the Russian financial crisis, and their performance indicators confirmed positive trends. Banks' assets increased by 37.5%, reaching 2 698.5 million lats (see Chart 2).

Structure of Assets

Different growth patterns of assets items, along with the banking sector's development, led to changes in the structure of banks' assets (see Chart 3).

The second largest item in banks' assets is banks' claims on credit institutions. In 2000, banks' total claims on credit institutions in the OECD countries grew 1.7 times (see Chart 4), as settlement expanded rapidly and banks introduced new types of settlement.

Securities

Banks' investment in securities increased considerably (by 55.4%). The share of such investment in banks' assets expanded to 19.0%. Investment in fixed-interest debt securities (excluding government securities) increased 2.4 times.

Loans

At the end of 2000, banks' loan portfolio, which totalled 1 086.7 million lats, was 27.8% larger than at the end of 1999.

The share of domestic loans in banks' loan portfolio increased in the reporting year. At the end of 2000, 86.5% of total loans was granted to domestic borrowers. The growing shares of loans to and deposits of residents indicated to Latvian banks' increasing interest in the domestic market.

Of loans granted to domestic enterprises in 2000, 26.3% went to trade, 22.6% to manufacturing, and 12.6% to transport, storage and communications.

Banks mainly granted commercial credit, which accounted for 38.7% of loans to domestic enterprises and private persons. The share of industrial credit increased from 25.0% to 27.5%.

In 2000, loans to domestic private persons increased by 68.6% (see Chart 5). Mortgage lending developed. Mortgage loans increased by 91.0%, and their share in banks' loan portfolio increased from 7.2% to 10.9%.

The maturity profile of loans revealed positive changes. Loans with a maturity of over five years grew, and their share

Chart 2

BANKS' ASSETS
(at end of period; in billions of lats)

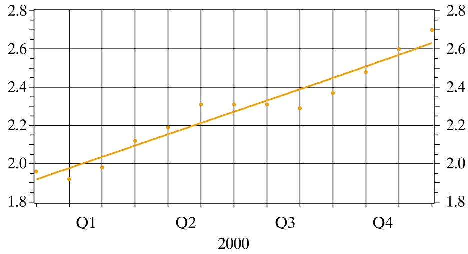


Chart 3

STRUCTURE OF BANKS' ASSETS
(at end of period; %)

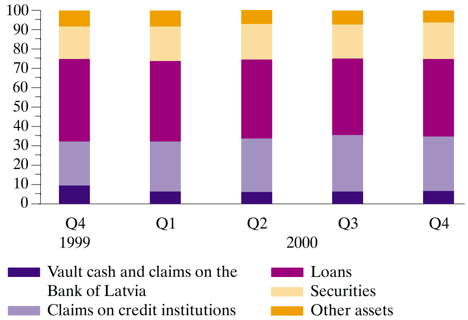


Chart 4

BANKS' CLAIMS ON CREDIT INSTITUTIONS
(at end of period; in millions of lats)

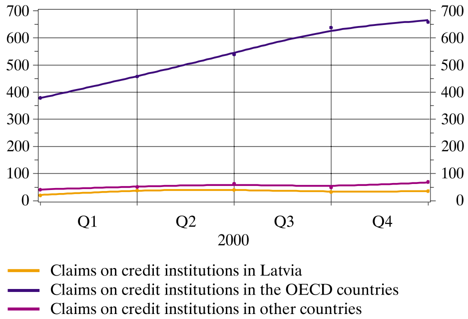


Chart 5

LOANS IN BREAKDOWN BY BORROWER
(at end of period; in millions of lats)

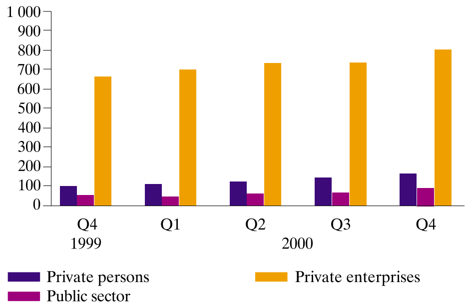


Chart 6

MATURITY PROFILE OF BANKS' LOAN PORTFOLIO
(at end of period; except transit credit; in millions of lats)

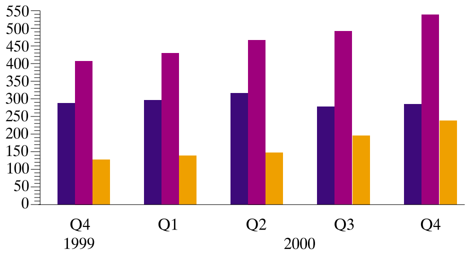


Chart 7

STRUCTURE OF BANKS' LIABILITIES
(at end of period; %)

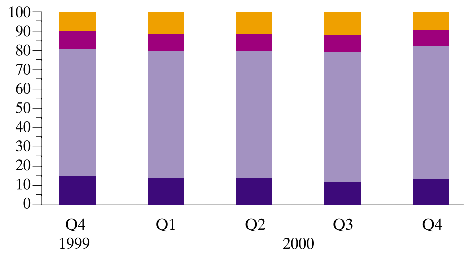


Chart 8

DEPOSITS IN BREAKDOWN BY DEPOSITOR
(at end of period; in millions of lats)

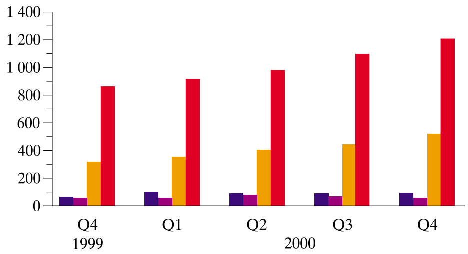
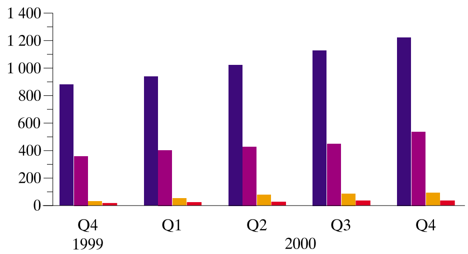


Chart 9

MATURITY PROFILE OF DEPOSITS
(at end of period; in millions of lats)



in banks' loan portfolio was 15.3% at the end of 1999 and 22.2% at the end of 2000 (for the maturity profile of the loan portfolio, except transit credit, see Chart 6).

Liabilities

Structure of Liabilities

Different growth patterns of liabilities items caused structural changes in banks' liabilities (see Chart 7). Banks attracted funds mainly in the form of deposits. The share of deposits in banks' liabilities increased from 65.8% at the end of 1999 to 69.1% at the end of 2000.

Although Latvian banks' liabilities to credit institutions increased by 29.2% in 2000, their share in banks' liabilities declined by 0.7 percentage points.

Deposits

At the end of 2000, deposits amounted to 1 864.6 million lats (a year-on-year increase of 44.5%). Deposits of private persons and private enterprises grew substantially (by 62.6% and 41.4%, respectively), confirming economic growth in the country (for deposits in breakdown by depositor, see Chart 8).

Residents' deposits increased by 33.1%, totalling 896.7 million lats. Non-residents' deposits also grew (by 56.9%), and their share reached 51.9% of total deposits.

The maturity profile of deposits revealed positive trends: the shares of short-, medium- and long-term deposits expanded. The share of demand deposits decreased from 68.3% at the end of 1999 to 65.1% at the end of 2000. Compared with the end of 1999, short-term deposits increased by 48.9%, and their share in the total reached 29.0% (for the maturity profile of deposits, see Chart 9).

Equity

Pursuant to the Law "On Credit Institutions", as of January 1, 2000 the paid-up share capital of a bank must be the lats equivalent of at least five million euros according to the Bank of Latvia's exchange rate. None of the banks failed to comply with this requirement.

At the end of 2000, the total paid-up share capital of banks amounted to 201.6 million lats (a year-on-year decrease of 3.3%). This was caused by the registration of the JSC *Merita-Nordbanken Latvia* as an undertaking other than a credit institution and the considerable decrease in the paid-up share capital of the JSC *Pirmā Latvijas Komercbanka*, which was larger than the total of increases in the share capital of six banks (for paid-up share capital, see Chart 10).

The share of foreign investment in banks' paid-up share capital increased by 3.7 percentage points year-on-year, reaching 69.9% at the end of 2000.

Foreign investment was made in five banks. At the end of 2000, in 12 banks foreign shareholders held over 50% of the share capital, and six of these were subsidiaries of foreign banks (the JSCs *Hansabanka*, *Latvijas Unibanka*, *Saules banka*, *Vereinsbank Rīga*, *Latvijas Biznesa banka* and *Pirmā Latvijas Komercbanka*).

The Latvian Government remained the sole owner of the JSC *Latvijas Hipotēku un zemes banka*, and it held 41.8% of share capital in the JSC *Latvijas Krājbanka*.

In Latvian banks' share capital, the proportion of capital invested by shareholders from Estonia, Sweden and Germany continued to increase in 2000 (by 3.5, 7.0 and 4.0 percentage points, respectively). The main reasons for this were as follows: two large Scandinavian banks *Skandinaviska Enskilda Banken AB* and *FöreningsSparbanken AB (Swedbank)* continued to reinforce their position in the Baltic financial markets and the German bank *Norddeutsche Landesbank Girozentrale* entered the Latvian banking sector. A positive trend could be observed in banks' share capital. The number of shareholders registered in off-shores and the number of shareholders whose owners (undertakings) are registered in off-shores continued to decrease, as did the share of their investment in banks' share capital (by 9.2 percentage points compared with the end of 1999; for the structure of banks' share capital, see Chart 11).

Although the number of banks decreased, their equity increased. Banks' capitalisation improved: paid-up share capital grew and profitability increased.

Profitability

In 2000, banks' profit totalled 38.3 million lats. Banks' profit was mainly generated by interest income on loans and fee and commission income (55.8% and 23.8% of total income, respectively; for banks' income and expense, see Chart 12). As banks' expanded the range of their services, interest income on loans and fee and commission income grew.

The improving quality of loans was the reason for a 54.5% increase in income from a decrease in provisions, and such income reached 9.1% of banks' total income.

In 2000, banks increased their investment in securities of the OECD countries; and hence, gains on dealing securities increased.

With the banking sector's assets increasing, administrative expenses grew. At the same time, the ratio of administrative

Chart 10

BANKS' EQUITY
(at end of period; in millions of lats)

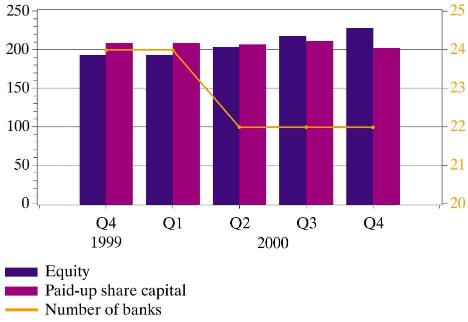
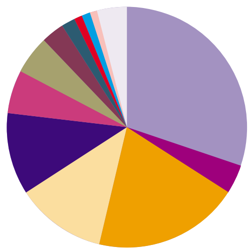


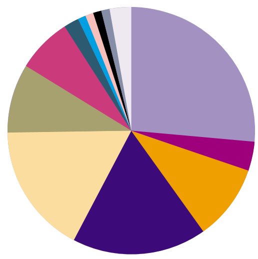
Chart 11

BANKS' SHARE CAPITAL BY INVESTOR
(at end of 1999; %)



Residents (30%)
Latvian Government (4%)
Off-shores (20%)
Estonia (12%)
Sweden (11%)
United States (6%)
Germany (5%)
Finland (3%)
Venezuela (2%)
European Bank for Reconstruction and Development (1%)
Russia (1%)
Switzerland (1%)
Other countries (4%)

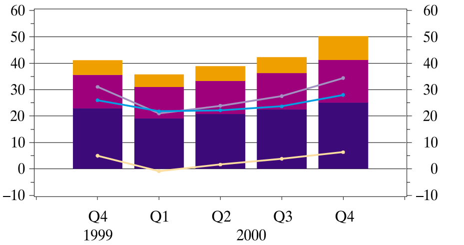
(at end of 2000; %)



Residents (26%)
Latvian Government (4%)
Off-shores (11%)
Sweden (18%)
Estonia (16%)
Germany (9%)
United States (7%)
Venezuela (2%)
Russia (1%)
Switzerland (1%)
Denmark (1%)
Ukraine (1%)
Other countries (3%)

Chart 12

INCOME AND EXPENSE OF BANKS
(in millions of lats)



Net interest income
Net fee and commission income
Gains/losses arising from dealing securities and foreign currencies
Administrative expenses and net bad and doubtful debt expense
Administrative expense
Net bad and doubtful debt expense

Chart 13

RATIO OF BANKS' ADMINISTRATIVE EXPENSES TO ASSETS
(%)

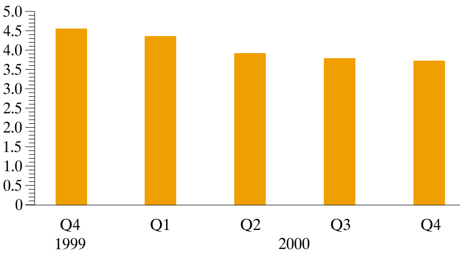
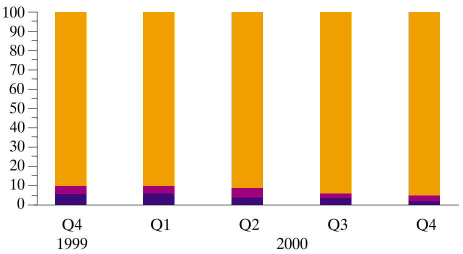


Chart 14

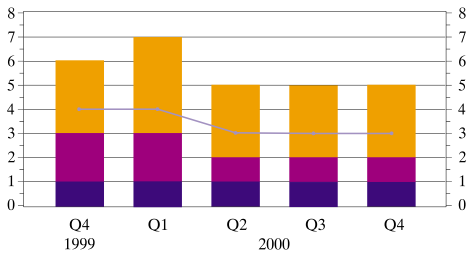
BANKS' LOAN PORTFOLIO
(at end of period; %)



Non-performing loans
Close-watch loans
Standard loans

Chart 15

BANKS' NON-PERFORMING LOANS
(as percent of total loans)



Lost loans
Doubtful loans
Substandard loans
Specific provisions

expenses to assets continued to decline, from 4.3% at the end of 1999 to 3.6% at the end of 2000 (see Chart 13).

The banking sector's return on assets was 1.0% at the end of 1999, and it increased to 1.6% at the end of 2000. At the same time, return on capital increased from 11.2% to 18.6%.

Quality of Loans

It is difficult and time-consuming to penetrate new markets, in particular western markets. In 1999, exports gradually grew, and the most marked growth was recorded for exports to EU member states. Hence, loan quality changed in 2000, and gradual improvements are likely to continue. At the end of 2000, the quality of banks' loan portfolio was as follows: of total loans, 93.3% was standard, 2.1% was close-watch, and 4.6% was non-performing (see Chart 14).

Significant expansion in lending was concurrent with a decrease in the amount and share of non-performing loans in banks' loan portfolio. In 2000, provisions were made in the full amount of non-performing loans. A somewhat large stock of non-performing loans did not threaten banks' stability, because adequate provisions, as required by Bank of Latvia stringent regulations, were made (see Chart 15).

Large Exposures

In accordance with the Law "On Credit Institutions", the total of a credit institution's large exposures (exposure is classified as large if it exceeds 10% of own funds) may not exceed the credit institution's own funds more than eight-fold. The ratio of total large exposures to banks' own funds was 175.2% at the end of 1999 and 187.8% at the end of 2000. All banks complied with this requirement of the above Law.

Capital Adequacy

The ratio of banks' own funds to the sum of risk-weighted assets and off-balance-sheet items (capital adequacy) reflects the part of assets and off-balance-sheet items that has to be covered with own funds. Pursuant to banking regulations, the capital adequacy ratio may not fall below 10%.

Latvian banks' capital adequacy is above the minimum capital adequacy requirement (see Chart 16).

In 2000, banks' capital adequacy ratio decreased, because banks' total assets increased and banks' risk-weighted assets showed an inadequate increase (see Chart 17).

At the end of 2000, more than half of banks had capital adequacy above 16% (see Chart 18). These banks' assets accounted for only 15.5% of total assets at the end of 2000. The capital adequacy ratio for five largest banks, whose assets in total reached 62.8% of all banks' assets, was within a range of 10%–15%.

Liquidity Risk

The Bank of Latvia requires credit institutions to maintain liquid assets in an amount that is sufficient to meet their liabilities and is not below 30% of total current liabilities (minimum liquidity requirement). The following unencumbered assets are treated as liquid assets: vault cash; demand claims on the Bank of Latvia and solvent credit institutions; claims on the Bank of Latvia and solvent credit institutions, whose residual maturity does not exceed 30 days; and deposits with other maturity, where their withdrawal ahead of maturity is established by a contract (deducting penalty for meeting liabilities ahead of maturity where the contract contains such provision); and investment in marketable securities, i.e., securities that can be sold quickly, without significant loss or used as collateral to receive a loan. Current liabilities are demand liabilities and liabilities whose residual maturity does not exceed 30 days.

Banks must monitor their liquidity every day; likewise, they must evaluate and plan the maturity profile of their assets and liabilities. Latvian banks maintain liquid assets at a sufficient level, and such policies can be regarded as prudent (see Chart 19).

As banks' current liabilities grew, their liquid assets increased. At the end of 2000, liquid assets equalled 66% of total current liabilities, and such level was sufficient to cover depositors' claims. Moreover, claims on credit institutions in the OECD countries reached 50.9% of liquid assets.

The maturity profile of banks' assets and liabilities reveals excess of funds on demand and a deficit of funds with maturity of over one month as measured against the placement of assets (see Chart 20).

In 2000, a number of banks were successful in attracting foreign long-term funds. The increase observed for liabilities with maturity of over one year would secure banks in granting corresponding maturity loans.

Foreign Exchange Risk

The Law "On Credit Institutions" lays down restrictions on the open foreign exchange position: it may not exceed 10% of own funds for any single foreign currency and 20% of own funds for the total of all foreign currencies.

As enterprises increasingly focused on western markets and earned profit in foreign currencies, the share of banks' liabilities in foreign currencies expanded. This determined the placement of banks' assets, with adequate provisions against

Chart 16

BANKS' CAPITAL ADEQUACY RATIO
(at end of period; %)

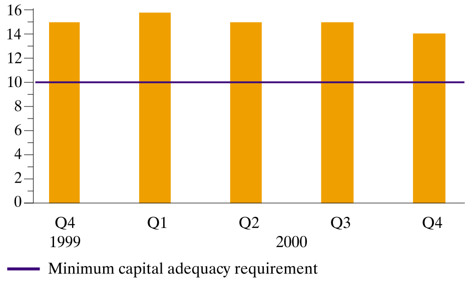


Chart 17

BANKS' RISK-WEIGHTED ASSETS
(in millions of lats)

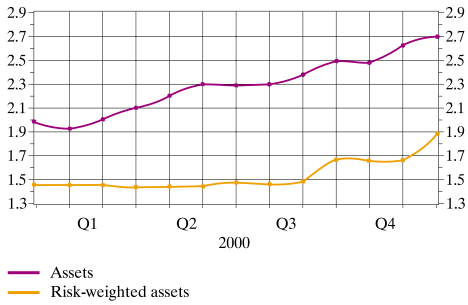


Chart 18

NUMBER OF BANKS
(by capital adequacy ratio; at end of period)

Chart 19

BANKS' LIQUIDITY
(at end of period; in millions of lats)

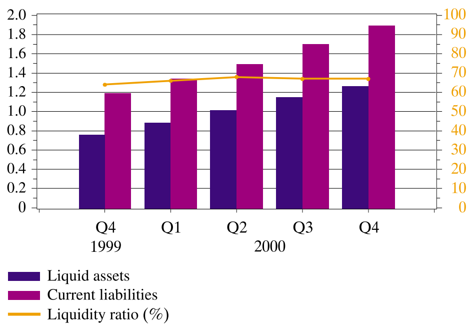


Chart 20

MATURITY PROFILE OF BANKS' ASSETS AND LIABILITIES
(at end of 2000; %)

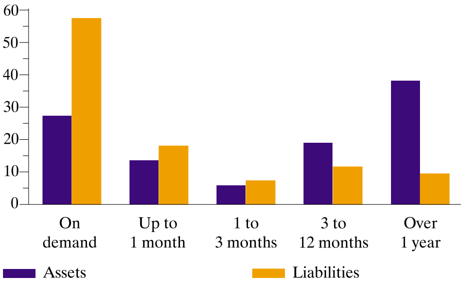


Chart 21

CURRENCY PROFILE OF BANKS' ASSETS
(at end of period; %)

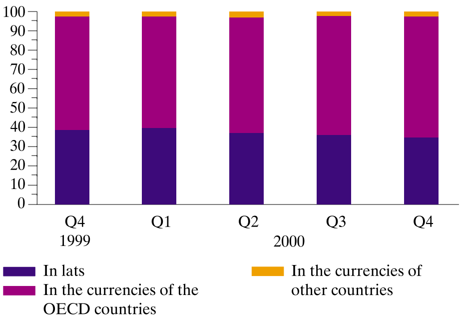
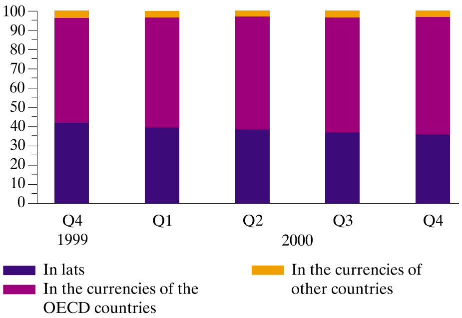


Chart 22

CURRENCY PROFILE OF BANKS' LIABILITIES
(at end of period; %)



foreign exchange risk (for currency profile of banks' assets and liabilities, see Charts 21 and 22). The difference between banks' assets and their liabilities (1 to 3 percentage points), as broken down by currency, complies with the restrictions on foreign exchange positions established by the above Law.

ACTIVITIES OF CREDIT UNIONS

By December 31, 2000, 17 credit unions had received credit institution operating licences, and two of these had not been registered with the Enterprise Register of the Republic of Latvia and had not commenced their activities.

In 2000, the development of Latvian credit unions showed positive trends. A number of new credit unions were established. Credit unions' assets (see Chart 23) grew by 51.5%, reaching 1 026.2 thousand lats at the end of the year (0.04% of credit institutions' assets; 0.03% at the end of 1999). Growth was ensured by larger inflow of funds through members' deposits.

The principal activity of credit unions is lending, and at the end of 2000, 81.2% of credit unions' assets was loans to members (84.1% at the end of 1999). In 2000, the loan portfolio of credit unions increased by 46.4% (to 833.5 thousand lats; for the structure of credit unions' assets, see Chart 24).

Credit unions mainly granted consumer credits with maturity of up to one year (89.5% of the loan portfolio). Loans with maturity of one year to five years increased 8.3 times: at the end of 1999, such loans accounted for 1.8% of total loans, 10.5% at the end of 2000 (see Chart 25).

At the end of 2000, close-watch loans continued to account for a large share in the loan portfolio of credit unions (72.4%); however, it was smaller than at the end of 1999 (83.7%). Such trend was a result of the Bank of Latvia's strict requirements for evaluating loan quality and prudent lending policies of credit unions. Non-performing loans accounted for a rather small share in total loans granted by credit unions (2.4%; see Chart 26).

Pursuant to Bank of Latvia regulations, specific provisions for close-watch loans have to be made in the amount of 10%. The share of specific provisions for such loans, therefore, was considerably larger than that of provisions for non-performing loans (see Chart 27). At the same time, net bad and doubtful debt expense declined, while the loan portfolio increased. This reflects a higher quality of loans granted (see Chart 30).

The profile of credit unions' liabilities did not change substantially, and members' deposits accounted for the largest part of the total (54.2%; see Chart 28).

In 2000, deposits increased by 47.5%, amounting to 555.9 thousand lats at the end of the year. The large share of deposits in credit unions' liabilities and the increase in deposits confirm an increase in the number of members and growing confidence in credit unions.

Chart 23

ASSETS AND DEPOSITS OF CREDIT UNIONS
(at end of period; in thousands of lats)

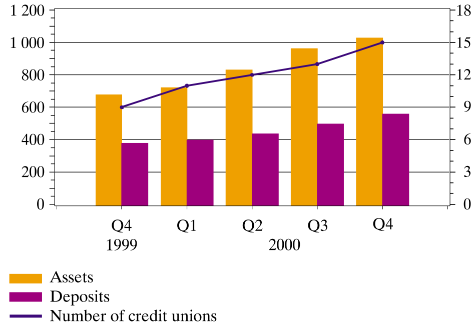


Chart 24

STRUCTURE OF CREDIT UNIONS' ASSETS
(at end of period; %)

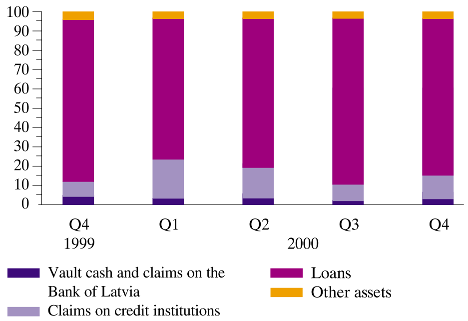


Chart 25

MATURITY PROFILE OF CREDIT UNIONS' LOAN PORTFOLIO
(at end of period; in thousands of lats)

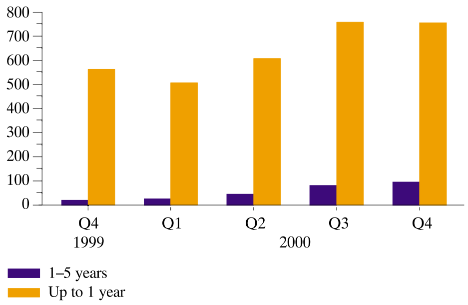


Chart 26

LOAN PORTFOLIO OF CREDIT UNIONS
(at end of period; %)

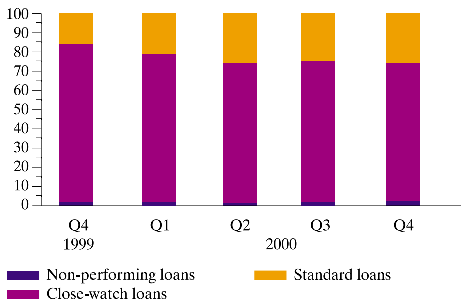


Chart 27

NON-PERFORMING LOANS OF CREDIT UNIONS
(as percent of total loans)

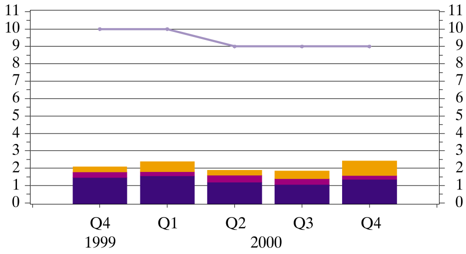


Chart 28

STRUCTURE OF CREDIT UNIONS' LIABILITIES
(at end of period; %)

Chart 29

EQUITY OF CREDIT UNIONS
(at end of period; in thousands of lats)

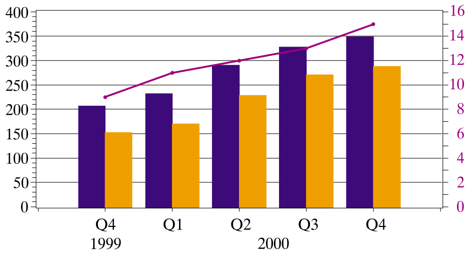
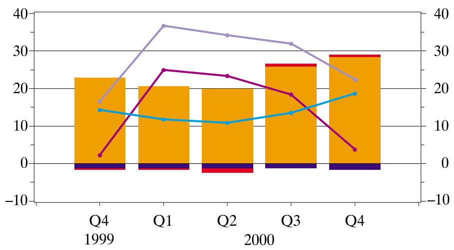


Chart 30

INCOME AND EXPENSE OF CREDIT UNIONS
(in thousands of lats)



With the number of credit unions growing, their paid-up share capital also increased. Equity increased by 68.8% (to 349.5 thousand lats; see Chart 29) to account for 34.1% of total liabilities at the end of 2000 (30.6% at the end of 1999).

Since the total assets of credit unions grew, net interest income on loans increased by 10.1%, totalling 95.2 thousand lats in 2000. The principal source for credit unions' profit was interest on loans granted to their members (127.5 thousand lats in 2000; 113.8 thousand lats in 1999; see Chart 30).

The profit of credit unions decreased from 24.2 thousand lats in 1999 to 10.7 thousand lats in 2000. Bad and doubtful debt expense increased by 30.1% (from 54.1 thousand lats to 70.4 thousand lats). With the number of newly established credit unions and total assets growing, remuneration to the staff and other administrative expenses increased. In 2000, administrative expenses increased by 28.6% (including a 31.5% increase in remuneration to the staff). The ratio of administrative expenses to total assets declined from 6.3% at the end of 1999 to 5.3% at the end of 2000.

At the end of 2000, the capital adequacy of credit unions was 34.3% (pursuant to the Law "On Credit Institutions", it may not fall below 10%), and their liquidity ratio was 61% (pursuant to the Law "On Credit Institutions", it may not fall below 30%).

APPENDICES

Appendix 1

Credit Institutions in Latvia (1991–2000)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Credit Institutions	14	51	63	58	43	39	37	35	35	39
Banks	–	50	62	55	41	34	31	27	23	21
Branches of foreign banks	–	–	–	1	1	1	1	1	1	1
Credit unions	–	1	1	2	1	4	5	7	11	17
Representative offices of foreign banks	–	–	–	1	1	1	1	1	1	1

Appendix 2

Number of Credit Institution Operating Licences Issued by the Bank of Latvia (1991–2000)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Licences issued	14	37	16	5	1	5	1	2	4	7
Banks	14	36	16	1	–	2	–	–	–	–
Branches of foreign banks	–	–	–	1	–	–	–	–	–	1
Credit unions	–	1	–	2	1	3	1	2	4	6
Permit for opening a representative office of a foreign bank	–	–	–	1	–	–	–	–	–	–
Licences revoked	–	–	4	9	16	9	3	4	4	3
Banks	–	–	4	8	14	9	3	4	4	2
Branches of foreign banks	–	–	–	–	–	–	–	–	–	1
Credit unions	–	–	–	1	2	–	–	–	–	–

Appendix 3

Structure of the Credit Institutions Supervision Department of the Bank of Latvia

Head of Department

Deputy Heads of Department (2)

Banking Regulations and Analysis Division
(6 employees)

Supervision Division
(31 employees)

Legal and Licensing Division
(10 employees)

Assistant to Head of Department, Secretary, Document Manager, Editor, Translator

Appendix 4

Credit Institutions Licensed in the Republic of Latvia[1]

BANKS		
1.	JSC *Aizkraukles banka*	Elizabetes ielā 23, Riga, LV-1010, Latvia Phone: 777 5222 Fax: 701 5601
2.	JSC *Baltijas Starptautiskā banka*	Kalēju ielā 43, Riga, LV-1050, Latvia Phone: 721 0172, 722 2789, 721 1426 Fax: 721 6870
3.	JSC Commercial Bank *Baltijas Tranzītu banka*	13. janvāra ielā 3, Riga, LV-1050, Latvia Phone: 702 4701, 702 4725 Fax: 721 1423, 721 1985
4.	JSC *Hansabanka*	Kaļķu ielā 26, Riga, LV-1050, Latvia Phone: 702 4444 Fax: 702 4400
5.	JSC *Latvijas Biznesa banka*	M. Pils ielā 3, Riga, LV-1050, Latvia Phone: 721 1151, 732 5796, 722 6486 Fax: 722 0249
6.	JSC *Latvijas Ekonomiskā komercbanka*	E. Birznieka-Upīša ielā 21, Riga, LV-1011, Latvia Phone: 722 1376, 704 1101 Fax: 721 0654, 704 1111
7.	State JSC *Latvijas Hipotēku un zemes banka*	Doma laukumā 4, Riga, LV-1977, Latvia Phone: 722 8866, 777 4022 Fax: 782 0143
8.	JSC *Latvijas Krājbanka*	Palasta ielā 1, Riga, LV-1954, Latvia Phone: 709 2020, 709 2001 Fax: 721 2083
9.	JSC *Latvijas tirdzniecības banka*	Trijādības ielā 4, Riga, LV-1048, Latvia Phone: 761 3608, 761 1032 Fax: 786 0077, 761 3663
10.	JSC *Latvijas Unibanka*	Pils ielā 23, Riga, LV-1050, Latvia Phone: 721 5535, 721 5795 Fax: 721 5335
11.	JSC *Māras banka*	Lāčplēša ielā 75, Riga, LV-1011, Latvia Phone: 728 4505, 728 6661 Fax: 728 2788
12.	JSC *Multibanka*	Elizabetes ielā 57, Riga, LV-1772, Latvia Phone: 728 9546, 728 2487, 728 4374 Fax: 782 8232
13.	JSC *Ogres komercbanka*	Brīvības ielā 36, Ogrē, LV-5001, Latvia Phone: 50 22278, 50 45554 Fax: 507 1300
14.	JSC *Parekss-banka*	Smilšu ielā 3, Riga, LV-1522, Latvia Phone: 701 0000 Fax: 701 0001

[1] As at the end of 2000.

Appendix 4 (cont.)

15.	JSC Bank *Paritāte*	Tērbatas ielā 4, Riga, LV-1134, Latvia Phone: 728 8433, 704 1300 Fax: 728 2981
16.	JSC *Pirmā Latvijas Komercbanka*	Smilšu ielā 6, Riga, LV-1803, Latvia Phone: 701 5237, 701 5214 Fax: 782 0080, 732 3449, 732 2521
17.	JSC *Rietumu Banka*	Brīvības ielā 54, Riga, LV-1011, Latvia Phone: 702 5555, 702 5284 Fax: 702 5588
18.	JSC *Saules banka*	Smilšu ielā 16, Riga, LV-1873, Latvia Phone: 722 4541, 702 0500 Fax: 702 0505
19.	JSC *Trasta komercbanka*	Miesnieku ielā 9, Riga, LV-1050, Latvia Phone: 702 7777 Fax: 702 7700, 702 7729
20.	JSC *VEF banka*	Brīvības gatvē 197, Riga, LV-1039, Latvia Phone: 755 3687, 755 6774 Fax: 782 1331, 755 1124
21.	JSC *Vereinsbank Rīga*	Elizabetes ielā 63, Riga, LV-1050, Latvia Phone: 708 5500 Fax: 708 5507
BRANCH OF A FOREIGN BANK		
1.	Riga Branch of *Merita Bank Plc.*	Kaļķu ielā 55, Riga, LV-1050, Latvia Phone: 709 6200 Fax: 782 0325
CREDIT UNIONS		
1.	*Allažu saime*[1]	Birzes ielā 4, Allažu pagastā, Rīgas rajonā, LV-2154, Latvia Phone: 292 4325 Fax: 790 1680
2.	*Avots 37*	Pasta ielā 14, Jelgavā, LV-3001, Latvia Phone: 30 25533
3.	*Dzelzceļnieks KS*	Turgeņeva ielā 14, Riga, LV-1050, Latvia Phone: 583 2211
4.	*Jūrnieku forums*	Elizabetes ielā 1, Riga, LV-1010, Latvia Phone: 702 0163, 702 0136
5.	*Līgatnes Druva*	"Birzēs", Līgatnes pagastā, Cēsu rajonā, LV-4108, Latvia Phone: 41 55901 Fax: 41 55636
6.	*Rucavas krājaizdevu sabiedrība*	Rucavas pagasta padomes telpās, Rucavas pagastā, Liepājas rajonā, LV-3477, Latvia Phone: 34 94506, 34 94683, 34 94507 Fax: 34 86388

[1] Licensed on November 30, 2000; registered with the Enterprise Register of the Republic of Latvia on January 2, 2001.

Appendix 4 (cont.)

7.	*Savstarpējo ieguldījumu nams*	Arhitektu ielā 1–3, Riga, LV-3477, Latvia Phone: 722 8252 Fax: 722 8215
8.	*Skolu krājaizdevu sabiedrība*	Mednieku ielā 7, Riga, LV-1010, Latvia Phone: 702 6806, 733 2549, 245 0621
9.	*Kauguru Kooperatīvā krājaizdevu sabiedrība*	Mūrmuižā, Pagastmājā, Kauguru pagastā, Valmieras rajonā, LV-4244 , Latvia Phone: 42 46161
10.	*Lielvārdes Kooperatīvā krājaizdevu sabiedrība*	Raiņa ielā 11a, Lielvārdē, Ogres rajonā, LV-5070, Latvia Phone: 50 54870
11.	*Metalurgu kooperatīvā krājaizdevu sabiedrība*[1]	Brīvības ielā 93, Liepājā, LV-3400, Latvia Phone: 34 55326
12.	*Pūņu Kooperatīvā krājaizdevu sabiedrība*	Valdgales pagasta padomes telpās, Valdgales pagastā, Talsu rajonā, LV-3253, Latvia Phone: 32 95732 Fax: 32 95772
13.	*Raunas Kooperatīvā krājaizdevu sabiedrība*	Parka ielā 4, Raunas pagastā, Cēsu rajonā, LV-4131, Latvia Phone: 41 20777, 41 77489 Fax: 41 77260
14.	*Rūjienas Kooperatīvā krājaizdevu sabiedrība*	Raiņa ielā 3, Rūjienā, Valmieras rajonā, LV-4240, Latvia Phone: 42 63696, 42 25804 Fax: 42 63149
15.	*Taurenes Kooperatīvā krājaizdevu sabiedrība*	Gaujas ielā 5–2, Taurenes pagastā, Cēsu rajonā, LV-4119, Latvia Phone: 41 66793
16.	*Veselavas Kooperatīvā krājaizdevu sabiedrība*	"Viesturos", Veselavas pagastā, Cēsu rajonā, LV-4116, Latvia Phone: 41 92232, 41 92270 Fax: 41 92232
17.	*Zosēnu Kooperatīvā krājaizdevu sabiedrība*	Zosēnu pagasta padomes telpās, "Jūrniekos", Zosēnu pagastā, Cēsu rajonā, LV-4133, Latvia Phone: 41 69235, 41 69285 Fax: 41 69235

[1] Licensed on November 30, 2000; registered with the Enterprise Register of the Republic of Latvia on January 29, 2001.

Appendix 5

PERFORMANCE INDICATORS OF BANKS

5.1. Assets

(at end of period; in thousands of lats)

	1999		2000							
	Q4		Q1		Q2		Q3		Q4	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Vault cash	89 016	4.5	68 909	3.3	72 786	3.1	73 436	3.0	89 871	3.3
Claims on the Bank of Latvia	95 740	4.9	64 661	3.1	59 113	2.6	74 394	3.0	80 448	3.0
Demand deposits	94 740	4.8	64 661	3.1	42 686	1.9	73 794	3.0	80 448	3.0
Time deposits	1 000	0.1	0	0	16 426	0.7	600	0	0	0
Claims on credit institutions	439 859	22.4	546 013	25.8	641 957	27.8	720 220	29.1	764 158	28.3
Latvian banks	19 929	1.0	37 475	1.8	39 772	1.7	32 458	1.3	35 715	1.3
OECD credit institutions	379 322	19.3	457 529	21.6	539 240	23.4	638 302	25.8	658 805	24.4
Credit institutions in other countries	40 608	2.1	51 009	2.4	62 945	2.7	49 460	2.0	69 638	2.6
Central government securities	215 530	11.0	231 172	10.9	251 457	10.9	241 148	9.7	257 229	9.5
Loans	850 561	43.3	890 608	42.0	954 251	41.3	989 943	40.0	1 086 728	40.3
Central and local governments	18 086	0.9	10 721	0.5	16 840	0.7	25 114	1.0	37 905	1.4
Public enterprises and public financial institutions	31 877	1.6	34 275	1.6	44 709	1.9	47 333	1.9	53 488	2.0
Private persons	101 782	5.2	111 437	5.3	127 009	5.5	147 359	6.0	164 308	6.1
Private enterprises and private financial institutions	678 102	34.6	712 974	33.6	743 151	32.2	747 875	30.2	809 175	30.0
Social and religious organisations	326	0	994	0	1 804	0.1	1 712	0.1	1 773	0.1
Transit credits	20 388	1.0	20 207	1.0	20 739	0.9	20 550	0.8	20 079	0.7
Other securities	113 747	5.8	148 592	7.0	170 293	7.4	195 767	7.9	254 570	9.4
Other issuers' bonds and fixed-interest debt securities	92 336	4.7	123 054	5.8	153 494	6.7	172 812	7.0	220 237	8.2
Shares and other variable-interest securities	21 411	1.1	25 538	1.2	16 799	0.7	22 955	0.9	34 333	1.3
Investments (holdings) in enterprises' share capital	9 801	0.5	13 229	0.6	13 324	0.6	10 642	0.4	9 340	0.3
Intangible and fixed assets	99 283	5.1	101 407	4.8	102 908	4.5	106 626	4.3	112 628	4.2
Other assets	30 104	1.6	37 024	1.6	27 440	1.0	43 444	1.8	24 463	1.0
Prepayments and accrued income	18 544	0.9	18 415	0.9	18 627	0.8	20 666	0.8	19 082	0.7
Total assets	**1 962 186**	**100.0**	**2 120 031**	**100.0**	**2 312 157**	**100.0**	**2 476 286**	**100.0**	**2 698 516**	**100.0**
Trust assets	92 925	–	151 402	–	118 012	–	133 773	–	161 818	–

5.2. Liabilities

(at end of period; in thousands of lats)

	1999		2000							
	Q4		Q1		Q2		Q3		Q4	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Liabilities to the Bank of Latvia	63 182	3.2	47 306	2.2	42 929	1.9	44 271	1.8	42 530	1.6
Liabilities to credit institutions[1]	239 311	12.2	247 081	11.7	281 160	12.2	247 658	10.0	309 111	11.5
Latvian banks	19 163	1.1	37 161	1.8	39 162	1.7	32 473	1.4	35 819	1.4
OECD credit institutions	151 200	7.7	149 521	7.1	170 961	7.4	143 908	5.8	178 024	6.6
Credit institutions in other countries	65 207	3.4	60 052	2.8	69 345	3.1	69 455	2.8	93 434	3.5
Deposits	1 290 750	65.8	1 403 631	66.2	1 543 346	66.7	1 685 786	68.1	1 864 575	69.1
Central and local governments	55 028	2.8	52 688	2.5	74 573	3.2	63 082	2.6	49 820	1.8
Public enterprises and public financial institutions	58 558	3.0	88 203	4.2	79 831	3.5	79 017	3.2	84 876	3.1
Private enterprises and private financial institutions	847 327	43.2	900 150	42.5	972 009	42.0	1 089 462	44.0	1 197 844	44.4
Private persons	317 928	16.2	348 737	16.4	404 327	17.5	440 952	17.8	517 098	19.2
Social and religious organisations	11 910	0.6	13 852	0.6	12 605	0.5	13 274	0.5	14 937	0.6
Transit funds	22 478	1.1	22 312	1.1	22 151	1.0	22 181	0.9	22 548	0.8
Issued bonds and other debt securities	3 745	0.2	6 754	0.3	11 598	0.5	9 009	0.4	10 409	0.4
Other liabilities	52 440	2.7	99 968	4.6	110 101	4.7	152 194	6.1	120 459	4.4
Deferred income and accrued expense	9 962	0.5	11 951	0.6	13 391	0.6	13 561	0.5	18 293	0.7
Provisions for debts and liabilities	69 838	3.6	68 495	3.2	62 273	2.7	62 674	2.5	59 074	2.2
Specific provisions for bad and doubtful debts	51 591	2.6	50 747	2.4	46 319	2.0	45 692	1.8	41 184	1.5
Subordinated liabilities (subordinated capital)	17 903	0.9	20 158	1.0	21 866	0.9	21 707	0.9	23 645	0.9
Equity	192 578	9.8	192 375	9.1	203 343	8.8	217 245	8.8	227 872	8.4
Total liabilities	**1 962 186**	**100.0**	**2 120 031**	**100.0**	**2 312 157**	**100.0**	**2 476 286**	**100.0**	**2 698 516**	**100.0**
Trust liabilities	92 925	–	151 402	–	118 012	–	133 773	–	161 818	–

[1] Liabilities to Latvian credit unions are also included.

5.3. Loans

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Loans	**850 561**	**890 608**	**954 251**	**989 943**	**1 086 728**
Residents (domestic)	**672 068**	**712 575**	**761 520**	**834 296**	**939 982**
Central and local governments	16 373	8 870	15 044	23 427	36 598
Public enterprises and public financial institutions	30 711	33 524	43 081	46 380	52 532
Private persons	94 043	103 787	117 711	138 986	158 570
Private enterprises and private financial institutions	510 227	545 918	564 590	604 630	671 888
Social and religious organisations	326	268	355	323	315
Transit credits	20 388	20 207	20 739	20 550	20 079
Non-residents (foreign)	**178 494**	**178 033**	**192 731**	**155 646**	**146 745**
Central and local governments	1 714	1 851	1 796	1 686	1 306
Public enterprises and public financial institutions	1 166	751	1 628	953	955
Private persons	7 739	7 650	9 298	8 373	5 738
Private enterprises and private financial institutions	167 875	167 055	178 561	143 245	137 288
Social and religious organisations	0	726	1 448	1 389	1 457
On demand	30 713	37 552	40 722	36 975	47 929
Short-term (up to 1 year)	261 706	260 851	274 734	241 503	241 638
Medium-term (1 year–5 years)[1]	410 525	430 422	469 856	495 077	540 686
Long-term (over 5 years)[1]	127 229	141 576	148 200	195 838	236 396

[1] Transit credits are excluded.

5.4. Net Loan Portfolio

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Loans (gross)	850 561	890 608	954 251	989 943	1 086 728
Specific provisions for claims on non-banks	35 435	34 728	33 206	33 056	31 189
Loans (net)	**815 126**	**855 879**	**921 045**	**956 887**	**1 055 539**
Ratio of specific provisions for claims on non-banks to loans (%)	4.2	3.9	3.5	3.3	2.9

5.5. Quality of the Loan Portfolio

(at end of period; %)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Standard loans	89.4	90.4	91.1	92.1	93.3
Close-watch loans	4.4	3.0	3.7	2.8	2.1
Non-performing loans	6.2	6.6	5.2	5.1	4.6
Substandard	2.7	3.4	2.9	2.8	2.5
Doubtful	2.0	2.1	1.4	1.2	1.1
Lost	1.5	1.1	0.9	1.1	1.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

5.6. Government Securities

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Republic of Latvia central government securities	113 406	133 390	134 723	127 381	137 975
Foreign central government securities	102 124	97 782	116 735	113 767	119 254
Foreign local government securities	1 957	3 091	3 112	3 652	3 155

5.7. Deposits

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Deposits	**1 290 750**	**1 403 631**	**1 543 346**	**1 685 786**	**1 864 575**
Residents (domestic)	**673 964**	**749 642**	**813 663**	**858 565**	**896 741**
Central and local governments	54 513	52 099	73 791	62 296	49 078
Public enterprises and public financial institutions	58 471	88 172	79 795	78 972	84 690
Private persons	247 530	274 474	318 376	344 865	395 957
Private enterprises and private financial institutions	301 992	321 485	329 734	360 245	352 938
Social and religious organisations	11 458	13 412	11 968	12 187	14 079
Non-residents (foreign)	**616 786**	**653 988**	**729 683**	**827 221**	**967 834**
Central and local governments	514	589	782	785	742
Public enterprises and public financial institutions	87	31	37	45	187
Private persons	70 398	74 263	85 951	96 087	121 142
Private enterprises and private financial institutions	545 335	578 665	642 275	729 217	844 906
Social and religious organisations	452	441	637	1 087	858
Demand	881 366	939 701	1 026 289	1 120 495	1 214 220
Short-term (up to 1 year)	362 732	403 990	427 185	455 473	540 159
Medium-term (1 year–5 years)	36 070	48 303	76 800	94 586	94 208
Long-term (over 5 years)	10 582	11 637	13 073	15 233	15 988

5.8. Equity

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Share capital	208 456	208 456	206 921	211 602	201 593
Residents	70 372	79 325	73 745	67 479	60 910
Non-residents	138 084	129 130	133 176	144 123	140 683
Share premium	46 860	46 860	46 848	47 028	48 476
Reserve capital	7 955	8 755	8 501	8 501	8 496
General risk reserve	0	209	232	232	232
Retained profit/loss of previous years	–93 994	–87 612	–85 800	–85 800	–74 614
Retained profit/loss of the reporting year	17 949	10 356	21 289	30 359	38 305
Revaluation reserve	5 352	5 352	5 352	5 324	5 383
Total equity	**192 578**	**192 375**	**203 343**	**217 245**	**227 872**

5.9. Off-Balance-Sheet Liabilities

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Contingent liabilities and commitments (guarantees and warranties)	59 228	28 206	34 238	39 539	38 737
Liabilities to customers (including letters of credit and liabilities arising from credit cards)	89 004	102 259	132 639	141 635	151 297
Currency and interest rate futures and forwards	238 137	330 462	375 137	446 700	483 948

5.10. Profit and Loss Account

(in thousands of lats)

	1999	2000			
		3 months	6 months	9 months	
Interest income	124 911	33 225	69 353	109 228	154 490
Interest income on claims on credit institutions	14 463	5 408	12 809	21 204	30 688
Interest income on loans to non-banks	83 650	22 069	43 864	67 971	94 927
Interest income on bonds and other fixed-interest debt securities	26 381	5 644	12 481	19 497	27 420
Interest income on futures and forwards	142	36	49	178	735
Other	274	68	150	378	721
Interest expense	46 066	14 103	29 451	46 827	67 111
Interest expense on liabilities to credit institutions	12 671	3 478	7 066	10 910	14 636
Interest expense on non-banks' deposits	29 705	9 666	20 188	32 275	46 711
Interest expense on bonds and other fixed-interest debt securities	787	166	458	772	1 169
Interest expense on subordinated liabilities	1 092	249	641	1 139	1 634
Interest expense on futures and forwards	97	45	52	101	643
Other	1 714	499	1 045	1 630	2 318
Net interest income	**78 845**	**19 122**	**39 902**	**62 401**	**87 379**
Bad and doubtful debts expense (net)	20 768	–802	908	4 801	11 201
Net income from mediation	**58 078**	**19 924**	**38 994**	**57 600**	**76 178**
Fee and commission income	52 810	14 008	29 291	46 111	65 850
Fee and commission expense	8 096	2 092	4 935	8 009	11 428
Gains/losses arising from dealing securities and foreign currencies	17 784	4 594	10 212	16 244	25 052
Gains/losses arising from dealing in foreign currencies	21 889	5 390	7 930	12 375	15 618
Gains/losses arising from dealing securities	1 170	948	3 594	3 111	5 619
Surplus/deficit arising from revaluation of foreign currencies	–4 412	–1 233	65	515	3 838
Surplus/deficit arising from revaluation of marketable securities	–1 128	–498	–1 489	241	335
Gains/losses arising from dealing in other financial instruments	265	–13	111	1	–359
Dividends income	197	298	333	343	356
Surplus/deficit arising from revaluation of long-term investments	–2 144	–22	554	832	773
Other ordinary income	5 031	968	1 723	2 566	3 801
Other ordinary expense	2 273	477	964	1 389	2 245
Gains/losses arising from financial activities	**121 385**	**37 201**	**75 208**	**114 298**	**158 337**
Administrative expenses	84 794	21 855	44 111	67 819	95 885
Remuneration to the Board and the Executive Board	2 891	752	1 529	2 478	3 450
Remuneration to the staff	31 438	8 651	16 899	25 681	35 900
Other	50 465	12 452	25 683	39 660	56 535
Amortisation of intangible assets, depreciation of fixed assets and write-offs	15 864	4 396	8 178	12 711	17 882
Ordinary income/expense	**20 728**	**10 950**	**22 919**	**33 769**	**44 569**
Extraordinary income	2 611	621	870	800	1 102
Extraordinary expense	1 899	98	222	844	950
Profit/loss before tax	**21 439**	**11 472**	**23 567**	**33 724**	**44 721**
Tax	3 490	1 116	2 278	3 365	6 415
Retained profit/loss of the reporting year	**17 949**	**10 356**	**21 289**	**30 359**	**38 305**

5.11. Profitability
(at end of period; %)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Return on equity	11.2	21.0	21.8	20.2	18.6
Return on assets	1.0	2.0	1.9	1.7	1.6
Effective deposit rate	3.0	3.0	2.9	3.0	3.1
Effective loan costs	5.1	6.0	6.2	6.5	6.7
Effective lending rate	10.8	10.0	9.8	9.8	9.9
Ratio of financial efficiency	69.9	59.0	58.7	59.3	60.6
Net interest rate margin	4.3	4.0	3.6	3.6	3.6

5.12. Income
(in thousands of lats)

	1999		2000							
			3 months		6 months		9 months			
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Interest income	124 911	55.5	33 225	54.5	69 353	53.9	109 228	56.0	154 490	55.8
Interest income on claims on credit institutions	14 463	6.4	5 408	8.9	12 809	10.0	21 204	10.9	30 688	11.1
Interest income on loans to non-banks	83 650	37.2	22 069	36.2	43 864	34.1	67 971	34.8	94 927	34.3
Interest income on bonds and other fixed-interest debt securities	26 381	11.7	5 644	9.3	12 481	9.7	19 497	10.0	27 420	9.9
Interest income on futures and forwards	142	0.1	36	0.1	49	0	178	0.1	735	0.3
Other	274	0.1	68	0.1	150	0.1	378	0.2	721	0.3
Fee and commission income	52 810	23.5	14 008	23.0	29 291	22.8	46 111	23.6	65 850	23.8
Gains arising from dealing in foreign currencies	21 889	9.7	5 390	8.8	7 930	6.2	12 375	6.3	15 618	5.6
Gains arising from dealing securities	1 170	0.5	948	1.6	3 594	2.8	3 111	1.6	5 619	2.0
Surplus arising from revaluation of foreign currencies	–	–	–	–	65	0.1	515	0.3	3 838	1.4
Surplus arising from revaluation of marketable securities	–	–	–	–	–	–	241	0.1	335	0.1
Gains arising from dealing in other financial instruments	265	0.1	–	–	111	0.1	1	0	–	–
Dividends income	197	0.1	298	0.5	333	0.3	343	0.2	356	0.1
Surplus arising from revaluation of long-term investments	–	–	–	–	554	0.4	832	0.4	773	0.3
Other ordinary income	5 031	2.2	968	1.6	1 723	1.2	2 566	1.3	3 801	1.4
Increase arising from a decrease in provisions	16 298	7.2	5 485	9.0	14 792	11.5	19 021	9.8	25 187	9.1
Extraordinary income	2 611	1.2	621	1.0	870	0.7	800	0.4	1 102	0.4
Total	**225 181**	**100.0**	**60 943**	**100.0**	**128 615**	**100.0**	**195 144**	**100.0**	**276 969**	**100.0**

5.13. Expense

(in thousands of lats)

	1999		2000							
			3 months		6 months		9 months			
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Interest expense	46 066	22.2	14 103	27.9	29 451	31.8	46 827	28.4	67 111	28.1
Interest expense on liabilities to credit institutions	12 671	6.1	3 478	6.9	7 066	7.6	10 910	6.6	14 636	6.1
Interest expense on non-banks' deposits	29 705	14.3	9 666	19.1	20 188	21.8	32 275	19.6	46 711	19.6
Interest expense on bonds and other fixed-interest debt securities	787	0.4	166	0.3	458	0.5	772	0.5	1 169	0.5
Interest expense on subordinated liabilities	1 092	0.5	249	0.5	641	0.7	1 139	0.7	1 634	0.7
Interest expense on futures and forwards	97	0	45	0.1	52	0.1	101	0.1	643	0.3
Other	1 714	0.8	499	1.0	1 045	1.1	1 630	1.0	2 318	1.0
Fee and commission expense	8 096	3.9	2 092	4.2	4 935	5.3	8 009	4.9	11 428	4.8
Deficit arising from revaluation of foreign currencies	4 412	2.1	1 233	2.4	–	–	–	–	–	–
Deficit arising from revaluation of marketable securities	1 128	0.6	498	1.0	1 489	1.6	–	–	–	–
Loss arising from dealing in financial instruments	–	–	13	0	–	–	–	–	359	0.2
Deficit arising from revaluation of long-term investments	2 144	1.0	22	0	–	–	–	–	–	–
Other ordinary expense	2 273	1.1	477	0.9	964	1.0	1 389	0.8	2 245	0.9
Bad and doubtful debts expense	37 066	17.9	4 683	9.3	908	1.0	23 821	14.5	36 388	15.2
Administrative expenses	84 794	40.9	21 855	43.2	44 111	47.7	67 819	41.2	95 885	40.2
Remuneration to the Board and the Executive Board	2 891	1.4	752	1.5	1 529	1.7	2 478	1.5	3 450	1.4
Remuneration to the staff	31 438	15.2	8 651	17.1	16 899	18.3	25 681	15.6	35 900	15.0
Other	50 465	24.4	12 452	24.6	25 683	27.8	39 660	24.1	56 535	23.7
Amortisation of intangible assets, depreciation of fixed assets and write-offs	15 864	7.7	4 396	8.7	8 178	8.9	12 711	7.7	17 882	7.5
Extraordinary expense	1 899	0.9	98	0.2	222	0.2	844	0.5	950	0.4
Taxes	3 490	1.7	1 116	2.2	2 278	2.5	3 365	2.0	6 415	2.7
Total	**207 232**	**100.0**	**50 587**	**100.0**	**92 535**	**100.0**	**164 785**	**100.0**	**238 664**	**100.0**

Appendix 6

PERFORMANCE INDICATORS OF CREDIT UNIONS

6.1. Assets

(at end of period; in thousands of lats)

	1999		2000							
	Q4		Q1		Q2		Q3		Q4	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Vault cash	9.5	1.4	6.5	0.9	14.3	1.7	18.5	1.9	34.5	3.4
Claims on the Bank of Latvia	25.0	3.7	25.0	3.5	25.0	3.0	5.0	0.5	5.0	0.5
Claims on credit institutions	52.5	7.7	146.3	20.3	130.3	15.7	90.2	9.4	127.5	12.4
Loans to members	569.5	84.1	522.2	72.5	640.7	77.2	823.7	85.9	833.5	81.2
Fixed assets	11.2	1.7	9.8	1.4	9.3	1.1	9.8	1.0	12.5	1.2
Other assets	9.5	1.4	9.8	1.4	10.5	1.3	12.6	1.3	13.2	1.3
Prepayments and accrued income	8.8	1.3	9.2	1.3	9.7	1.2	12.0	1.3	12.6	1.2
Other assets	0.3	0	0.2	0	0.3	0	0.2	0	0.1	0
Intangible assets	0.4	0.1	0.4	0.1	0.5	0.1	0.4	0	0.5	0
Total assets	**677.2**	**100.00**	**719.6**	**100.00**	**830.1**	**100.00**	**959.8**	**100.00**	**1 026.2**	**100.00**

6.2. Liabilities

(at end of period; in thousands of lats)

	1999		2000							
	Q4		Q1		Q2		Q3		Q4	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Liabilities to credit institutions in Latvia	10.0	1.5	16.0	2.2	22.5	2.7	22.4	2.3	21.0	2.0
Members' deposits	376.8	55.6	396.1	55.0	436.4	52.5	496.2	51.7	555.9	54.2
Other liabilities	24.8	3.7	23.8	3.4	23.9	2.9	38.6	4.1	23.0	2.2
Deferred income and accrued expense	13.3	2.0	14.9	2.1	18.2	2.2	20.6	2.1	18.5	1.8
Other liabilities	11.5	1.7	8.9	1.3	5.7	0.7	18.0	2.0	4.5	0.4
Provisions for debts and liabilities	58.5	8.6	51.7	7.2	57.7	7.0	74.1	7.7	76.8	7.5
Specific provisions for bad and doubtful debts	57.6	8.5	49.8	6.9	56.3	6.8	72.6	7.6	74.6	7.3
Other	0.9	0.1	1.9	0.3	1.4	0.2	1.5	0.1	2.2	0.2
Equity	207.1	30.6	232.0	32.2	289.6	34.9	328.5	34.2	349.5	34.1
Paid-up capital	152.0	22.4	170.8	23.7	228.0	27.5	271.0	28.2	288.0	28.1
Share premium	4.0	0.6	4.0	0.6	5.0	0.6	5.0	0.5	5.0	0.5
Reserve capital	31.0	4.6	45.0	6.2	47.0	5.6	49.0	5.1	50.6	4.9
Retained profit of previous years	–1.0	0.1	–1.0	0.1	–1.0	0.1	–1.0	0.1	–1.0	0.1
Retained profit/loss of the reporting year	21.1	3.1	13.2	1.8	10.6	1.3	4.5	0.5	6.9	0.7
Total liabilities	**677.2**	**100.0**	**719.6**	**100.0**	**830.1**	**100.0**	**959.8**	**100.0**	**1 026.2**	**100.0**

6.3. Loans

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Loans	**569.5**	**522.2**	**640.7**	**823.7**	**833.5**
On demand	0	3.0	4.0	4.0	5.0
Short-term (up to 1 year)	559.0	501.0	598.0	745.0	741.0
Medium term (1 year–5 years)	10.5	18.2	38.7	74.7	87.5

6.4. Net Loan Portfolio

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Loans (gross)	569.5	522.2	640.7	823.7	833.5
Specific provisions for claims on non-banks	57.6	49.8	56.3	72.6	74.6
Loans (net)	**511.9**	**472.4**	**584.4**	**751.1**	**758.9**
Ratio of specific provisions for claims on non-banks to loans (%)	10.1	9.5	8.8	8.8	9.0

6.5. Quality of the Loan Portfolio

(at end of period; %)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Standard loans	14.2	20.7	25.3	24.2	25.2
Close-watch loans	83.7	77.0	72.8	74.0	72.4
Non-performing loans	2.1	2.3	1.9	1.8	2.4
Substandard	0.4	0.6	0.3	0.5	0.8
Doubtful	0.4	0.2	0.5	0.4	0.2
Lost	1.4	1.5	1.1	1.0	1.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

6.6. Deposits

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Deposits	**376.8**	**396.1**	**436.4**	**496.2**	**555.9**
On demand	150.0	158.1	174.0	208.2	220.9
Short-term (up to 1 year)	223.8	235.0	259.4	284.0	334.0
Medium-term (1 year–5 years)	3.0	3.0	3.0	4.0	1.0

6.7. Equity

(at end of period; in thousands of lats)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Paid-up capital	152.0	170.8	228.0	271.0	288.0
Share premium	4.0	4.0	5.0	5.0	5.0
Reserve capital	31.0	45.0	47.0	49.0	50.6
Retained profit/loss of previous years	–1.0	–1.0	–1.0	–1.0	–1.0
Retained profit/loss of the reporting year	21.1	13.2	10.6	4.5	6.9
Total equity	**207.1**	**232.0**	**289.6**	**328.5**	**349.5**

6.8. Profit and Loss Account

(in thousands of lats)

	1999	2000			
		3 months	6 months	9 months	
Interest income	114.8	28.0	56.0	90.8	129.2
Interest income on claims on credit institutions	0.9	0.4	1.1	1.3	1.7
Interest income on loans to members	113.8	27.5	54.9	89.5	127.5
Other	0.1	0.1	0	0	0
Interest expense	28.3	7.4	15.4	24.3	34.0
Interest expense on liabilities to credit institutions	1.1	0.4	0.9	1.4	2.3
Interest expense on members' deposits	27.2	7.0	14.5	22.9	31.7
Net interest income	**86.5**	**20.6**	**40.6**	**66.5**	**95.2**
Bad and doubtful debts expense (net)	10.6	–7.6	–0.1	16.5	19.7
Net income from mediation	**75.9**	**28.2**	**40.7**	**50.0**	**75.5**
Fee and commission income	0	0	0.5	1.4	1.7
Fee and commission expense	4.1	1.4	3.3	5.4	7.3
Gains/losses arising from dealing securities and foreign currencies	0	–0.3	–1.3	–0.6	–0.2
Gains/losses arising from dealing securities	–0.1	–	–	–	–
Surplus/deficit arising from revaluation of foreign currencies	0.1	–0.3	–1.3	–0.6	–0.2
Other ordinary income	0	0.1	0.2	0.4	1.3
Other ordinary expense	0.7	0.1	0.1	0.1	1.6
Gains/losses arising from financial activities	**71.1**	**26.5**	**36.7**	**45.7**	**69.4**
Administrative expenses	42.6	11.8	22.6	36.2	54.8
Remuneration to the Board and the Executive Board	2.0	0	1.5	0.9	2.5
Remuneration to the staff	21.6	5.9	11.2	19.3	28.4
Other	19.0	5.9	9.8	16.0	23.9
Amortisation of intangible assets, depreciation of fixed assets and write-offs	4.3	0.7	1.4	2.2	3.9
Ordinary income/expense	**24.2**	**14.0**	**12.7**	**7.3**	**10.7**
Tax	3.1	0.8	2.1	2.8	3.8
Retained profit of the reporting year	**21.1**	**13.2**	**10.6**	**4.5**	**6.9**

6.9. Profitability

(at end of period; %)

	1999	2000			
	Q4	Q1	Q2	Q3	Q4
Return on capital	10.0	5.7	3.7	1.4	2.0
Return on assets	3.0	2.0	1.0	0.5	0.7

6.10. Income

(at end of period; in thousands of lats; %)

	1999		2000							
			3 months		6 months		9 months			
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Interest income	114.8	72.5	28.0	46.2	56.0	53.3	90.8	63.6	129.2	70.7
Interest income on claims on credit institutions	0.9	0.6	0.4	0.7	1.1	1.0	1.3	0.9	1.7	1.0
Interest income on loans to members	113.8	71.8	27.5	45.4	54.9	52.2	89.5	62.7	127.5	69.7
Other	0.1	0.1	0.1	0.1	0	0	0	0	0	0
Fee and commission income	0	0	0	0	0.5	0.5	1.4	1.0	1.7	0.9
Surplus arising from revaluation of foreign currencies	0.1	0.1	–	–	–	–	–	–	–	–
Other ordinary income	0	0	0.1	0.2	0.2	0.2	0.4	0.3	1.3	0.7
Increase arising from a decrease in provisions	43.5	27.4	32.5	53.6	48.4	46.0	50.2	35.1	50.7	27.7
Total	**158.4**	**100.0**	**60.6**	**100.0**	**105.1**	**100.0**	**142.8**	**100.0**	**182.9**	**100.0**

6.11. Expense

(at end of period; in thousands of lats; %)

	1999		2000							
			3 months		6 months		9 months			
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Interest expense	28.3	20.6	7.4	15.6	15.4	16.3	24.3	17.6	34.0	19.3
Interest expense on liabilities to credit institutions	1.1	0.8	0.4	0.8	0.9	1.0	1.4	1.0	2.3	1.3
Interest expense on members' deposits	27.2	19.8	7.0	14.8	14.5	15.3	22.9	16.6	31.7	18.0
Fee and commission expense	4.1	3.0	1.4	3.0	3.3	3.5	5.4	3.9	7.3	4.2
Losses arising from dealing securities	0.1	0.1	–	–	–	–	–	–	–	–
Deficit arising from revaluation of foreign currencies	–	–	0.3	0.6	1.3	1.4	0.6	0.4	0.2	0.1
Other ordinary expense	0.7	0.5	0.1	0.2	0.1	0.1	0.1	0.1	1.6	0.9
Bad and doubtful debts expense	54.1	39.4	24.9	52.5	48.3	51.1	66.7	48.2	70.4	40.0
Administrative expenses	42.6	31.0	11.8	24.9	22.6	23.9	36.2	26.2	54.8	31.1
Remuneration to the Board and the Executive Board	2.0	1.5	–	–	1.5	1.6	0.9	0.7	2.5	1.4
Remuneration to the staff	21.6	15.7	5.9	12.4	11.2	11.9	19.3	14.0	28.4	16.1
Other	19.0	13.8	5.9	12.4	9.8	10.4	16.0	11.6	23.9	13.6
Amortisation of intangible assets, depreciation of fixed assets and write-offs	4.3	3.1	0.7	1.5	1.4	1.5	2.2	1.6	3.9	2.2
Taxes	3.1	2.3	0.8	1.7	2.1	2.2	2.8	2.0	3.8	2.2
Total	**137.3**	**100.0**	**47.4**	**100.0**	**94.5**	**100.0**	**138.3**	**100.0**	**176.0**	**100.00**

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