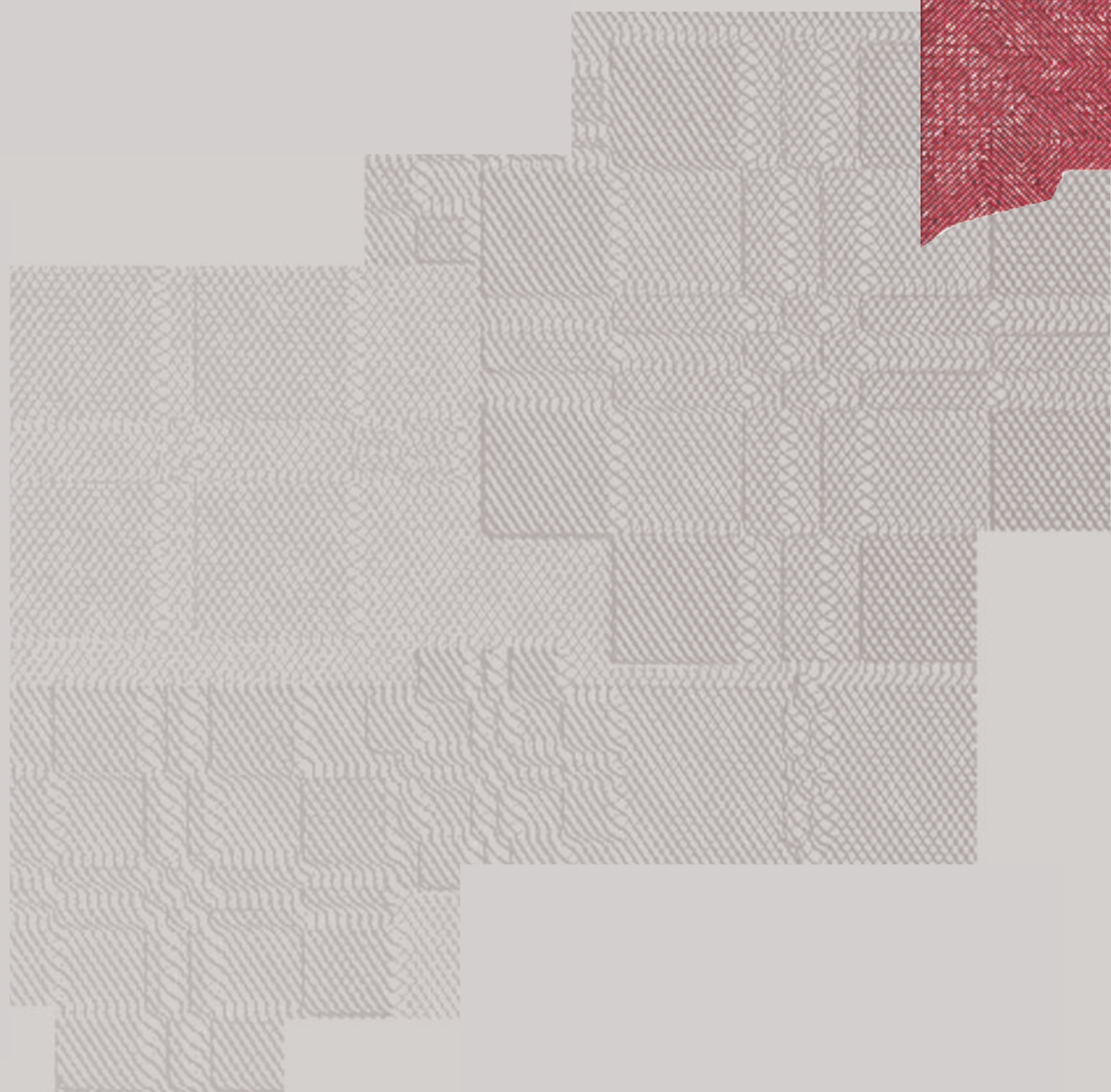


BANK OF LATVIA. ANNUAL REPORT 2000



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In 2000, rapid economic growth, which was related to a marked increase in exports and foreign investment, was reflected in principal economic indicators. Economic reforms enacted and macroeconomic policy implemented by the Government, as well as the Bank of Latvia's monetary policy, reinforced the positive trends; and therefore, results were better than projected and were above the average level in the region.

The Bank of Latvia's monetary policy fostered a decrease in the annual rate of core inflation (to 0.3%), and the average annual rate of inflation remained at a low level (2.6%). Inflation was mainly associated with an increase in administratively regulated prices in Latvia and rising world market prices of oil. The Bank of Latvia's net foreign assets as at the end of a year increased by 3.6% compared with the previous period.

Expansion in the service sector, along with growth in the goods-producing sector, provided for GDP growth (6.6%). The unemployment rate continued to follow a downward trend (7.8% in December).

Economic growth ensured larger tax revenues and a decrease in the fiscal deficit of the general government consolidated budget. The fiscal deficit did not exceed 2.8% of GDP and was 34.0 million lats smaller than in 1999. This confirmed positive trends in the Latvian economy.

Favourable economic environment in Latvia facilitated growth in foreign investors' interest and an increase in direct investment. The deficit in the balance of payments current account declined, as growth in exports of services lessened the impact of the goods deficit on the current account. The share of the EU Member States reached 64.6% of Latvia's exports.

Events decisive for the government securities market were the first issue of 3-year bonds in January and the first issue of 5-year bonds in March. The weighted average yields of bonds were lower than projected, and this was a sign of market participants' optimistic outlook for the Latvian economy.

The Bank of Latvia used monetary policy instruments so as to maintain the stability of the national currency and promote a downward trend in money market rates. The national currency was backed by gold and convertible foreign currencies. The stability of the exchange rate of the lats was maintained through fixing it to the SDR basket of currencies. Foreign currencies fluctuated against the lats in line with their movements in the global foreign exchange market. Global trends were also reflected in the depreciation of the lats against the US dollar and its appreciation against the euro in the period until December 2000, and a reversal of these trends at the end of the year.

The Bank of Latvia's quality management system, which covered such fields of the Bank's activity as monetary policy, foreign exchange operations and supervision of credit institutions, was assigned ISO 9002 certification in accordance with the quality management and quality assurance standard ISO 9002.

In 2000, indicators of the Latvian banking sector continued to grow. Credit institutions' assets increased by 40.5%. Loans to domestic enterprises and private persons grew by 37.8%. With purchasing power and confidence in the banking system growing, deposits received from domestic enterprises and private persons increased (by 36.9%). Lending rates continued to fall, and the share of medium- and long-term loans expanded. Banks' profit exceeded 2.1 times the 1999 level. The increasing share of foreign capital reinforced confidence in Latvian banks.

To create a legislative framework for the change in supervision of the financial and capital markets, in June 2000 the Saeima of the Republic of Latvia adopted the Law "On the Financial and Capital Market Commission", which laid down that, with the aim of conducting supervision of market participants, the Financial and Capital Market Commission would be established on July 1, 2001.

The accession to the EU continued to be the main priority of Latvia's foreign and economic policies; therefore, the Bank of Latvia further improved normative documents and processes within its competence, harmonizing them with EU requirements. In 2000, the harmonization of Latvian banking regulations and requirements with EC banking directives and the Basle Core Principles for Effective Banking Supervision was in fact completed. To provide for rapid and secure interbank settlements, the Bank of Latvia launched the Automated Interbank Payment System. This will enable Latvia to join the Trans-European Automated Real-Time Gross Settlement Express Transfer System after its accession to the EU.

Another important event in 2000 was the Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development, which took place in Riga at the end of May. Numerous banking and financial experts and businessmen from different countries arrived to participate in the Annual Meeting. The acclaimed organization of the Meeting was an indication of Riga's potential to become the financial centre in the Baltic.

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

The macroeconomic indicators achieved in 2000, the course of the structural reforms in the economy, development trends in the financial sector and the activity of the private sector are certain to foster Latvia's long-term economic growth.

GLOBAL ECONOMIC ENVIRONMENT

Global economic growth of mid-2000 was the most pronounced in the last decade. World GDP grew by about 4.9% in 2000 (by 3.1% in 1999). Rising private consumption and imports in the United States accounted for over one-third of the growth. Although oil prices rose rapidly, inflation was relatively low both in developed and transition economies. Growth in the global economy, which was promoted by growing investment and employment in the IT sector, was also reflected in higher external demand for Latvia's goods and services.

In the EU Member States, which are Latvia's largest foreign trade partners, economic growth was driven by the rapid increase in exports, which was related to the low exchange rate of the euro and the benign global economic environment, in particular, growing domestic demand in the United States. In 2000, total GDP in the EU Member States increased by about 3.4%, while the increase in the Harmonized Index of Consumer Prices reached 2.3% because of high oil prices.

In the first half of 2000, the US economy grew rapidly (GDP growth was 5.6% in the second quarter), as productivity, investment in the IT sector and domestic demand rose. US economic growth, however, was unbalanced: boosted purchases of IT products, which put greater demands on the infrastructure; a too optimistic evaluation of shares in IT companies; a negative savings norm both for individuals and companies; and a substantial current account deficit. This was the reason why in the United States GDP growth slowed down to 2.2% in the third quarter and 1.1% in the fourth quarter (5.0% in 2000). Consumption decreased, inventories increased, and output and investment declined.

In 2000, Japan's GDP growth was only 1.7%. Trends prevailing in the Japanese economy were as follows: continuing consumer price deflation, a decrease in retail trade turnover, and close-to-zero interest rates of the Bank of Japan.

The economies of Central and Eastern Europe had overcome the consequences of the Russian financial crisis. The most marked economic growth in this region was in Estonia (GDP growth expected at 6.4%) and Hungary (5.3%).

Likewise, the Russian economy showed positive trends in 2000: GDP growth was 7.7%; the state budget posted a surplus; the current account surplus reached 23% of GDP; and retail trade turnover rose by 8.9%. The Russian ruble was stable. The positive results were attributable to high world prices for resources. The annual rate of inflation decreased from 86% in 1999 to 21% in 2000.

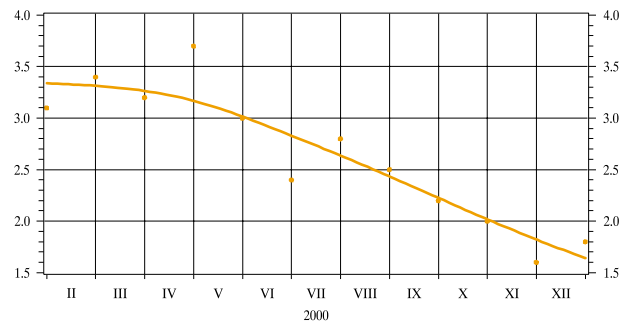
INFLATION AND PRICES

The consumer price index (CPI) rose by 1.8% in Latvia in 2000 (see Chart 1; by 3.2% in 1999). In 2000, consumer prices were mainly pushed up by a rise in the prices of services (4.2%). The prices of goods rose by only 1.0%. On average, the year-on-year rise in the CPI was 2.6% in 2000 (2.4% in 1999). The annual inflation rate was mainly caused by changes in administratively regulated prices and fuel prices (an increase of 1.4 percentage points), while the annual rate of core inflation was only 0.3%.

The most rapidly rising administratively regulated prices were housing maintenance costs (gas prices rose by 20.3%, hot water prices by 6.5% and heat supply prices by 4.4%), prices of communication (by 3.6%) and public transport fares (by 8.7%; this growth can be partly attributed to a 7.4% rise in fuel prices, caused by rising world market prices for oil and the appreciation of the US dollar).

Chart 1

CHANGES IN THE CONSUMER PRICE INDEX
(year-on-year basis; %)



Source: Central Statistical Bureau of Latvia.

In 2000, the increase in the CPI was also a result of changes in excise tax rates. At the beginning of the year, the tax rate on alcoholic beverages was raised. The excise tax was also levied on non-alcoholic beverages. This made their prices rise by 4.6%.

Price decreases were registered for the largest part of food products. A downward trend was also observed for prices of telephone equipment and household appliances.

In January, the CPI rose most pronouncedly (by 1.1%), while falling in March, May, July and August. The highest annual rate of inflation was in April (3.7%), but the lowest, in November (1.6%).

In 2000, compared with the previous year, the average monthly gross wage in the public sector (excluding social and religious organizations) increased by 7.8%, amounting to LVL 168.95 (USD 278.80). Since the rise in the gross wage exceeded the rate of annual inflation, the real gross wage grew by 5.1% compared with the previous year. The average net wage (LVL 121.89 or 72.1% of the average gross wage) was 7.3% higher than in the previous year, and the real net wage, 4.6% higher.

With demand and industrial output growing, the producer price index (PPI) started rising in the reporting year. In 2000, the average year-on-year increase in the PPI was 0.6% (a year-on-year decrease of 4.0% in 1999), including 0.5% in manufacturing and 1.4% in electricity, gas and water supply. The PPI decreased in mining and quarrying (by 1.8%).

Construction prices fell by 1.9% in 2000 (an 11.0% rise in 1999).

The export unit value continued to decrease in 2000 (by 1.3%), yet at a less rapid pace than in 1999 (by 3.6%). The most pronounced decreases in the export unit value were observed in miscellaneous manufactured articles (mainly furniture; 15.8%), and textiles and textile articles (6.7%). The export unit value rapidly increased in mineral products, and base metals and articles of base metals (by 21.6% and 8.2%, respectively). Real exports grew by 13.7%.

The import unit value increased by 6.7% (a 5.3% decrease in 1999). This was a result of the rising import unit value of mineral products (by 46.9%), vegetable products (by 19.5%), base metals and articles of base metals (by 9.9%), products of the chemical and allied industries (by 7.4%). The import unit value decreased in miscellaneous manufactured articles, and textiles and textile articles (by 9.1% and 5.6%, respectively). As the import unit value rose, real imports grew by 5.1%.

With the import unit value growing and the export unit value declining, the terms of trade worsened in 2000 (by 7.5%); and therefore, expense on imported goods increased, while income on exported goods declined.

GROSS DOMESTIC PRODUCT

In 2000, GDP at current prices totalled 4 333.0 million lats, and the annual GDP growth (at constant prices) was 6.6%. Considerable increases were recorded across the major sectors of the national economy. The service sector continued to develop at a more rapid pace (a 7.1% increase in value added). Value added also rose significantly in the goods-producing sector (by 5.8%). GDP growth was most rapid in the fourth quarter (8.7%); and this was the result of a substantial increase in the value added of the service sector (see Table 1). Growth in value added was observed in trade (9.6%), real estate, renting and business activities (13.6%), financial intermediation (9.6%), other community, social and personal activities (6.9%), and transport, storage and communications (7.2%).

Table 1

GROSS DOMESTIC PRODUCT AND GROSS VALUE ADDED

(at constant prices; year-on-year basis; %)

	Q1	Q2	Q3	Q4	2000
GDP	6.1	5.0	6.6	8.7	6.6
Goods-producing sector	6.6	6.2	4.1	6.6	5.8
Service sector	5.7	4.2	8.4	10.2	7.1

Source: Central Statistical Bureau of Latvia.

In 2000, domestic trade turnover (at constant prices) rose, by 9.0%, over the previous year's level. Cargoes loaded and unloaded at Latvian ports grew compared with 1999 (by 5.8%). The indicator slightly rose for the Ventspils port (by 1.8%), but increases recorded for the Riga, Liepāja and small ports were more pronounced (11.1%, 27.6% and 38.0%, respectively). Increasing transit, exports and imports (by 9.7%, 16.4% and 11.8%, respectively) contributed to the 9.7% growth in cargo traffic by rail.

In 2000, with foreign and domestic demand on the rise, value added grew in manufacturing (by 5.7%), which is the principal branch of the goods-producing sector. The most marked increases in the volume index of industrial output were observed in the manufacture of transport vehicles (40.7%), the manufacture of radio, television and communication equipment and apparatus (24.5%) and the manufacture of electrical machinery and apparatus not elsewhere classified (22.8%). Growth in the bulk of branches of manufacturing ranged from 10% to 20%.

In 2000, value added grew in construction (by 8.4%), fishing (by 8.2%) and forestry, logging and related service activities (by 26.8%). As the production of principal livestock products was on the rise, the value added of agriculture rose by 3.3%. In agriculture, hunting and forestry, value added grew by 9.2%.

The number of unemployed persons registered at the State Employment Service decreased by 14.8% in 2000. In December 2000, the unemployment rate reached 7.8%, the lowest level since September 1998 (9.1% in December 1999). Escalating economic activity was the reason for a fall in the number of unemployed persons. Unemployment declined steadily throughout the year, and a particularly rapid decrease was observed in the first half of the year. The share of long-term unemployed declined by 2.1 percentage points (to 29.0% of the number of registered unemployed persons). With the number of new vacancies growing, the ratio characterizing the number of unemployed per vacancy declined to 41 (51 in December 1999). In December 2000, the lowest unemployment was in Riga and the Ogre district (3.7% and 5.3%), while the highest, in the Rēzekne, Balvi and Krāslava

districts (25.6%, 21.8% and 21.8%, respectively). In 2000, unemployment declined in 23 of 26 Latvia's districts; however, the principal trends remained unchanged.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In 2000, Latvia's foreign trade turnover amounted to 3 065.2 million lats, and exports and imports grew at an equally rapid pace (by 12.2%). The excess of imports over exports did not change substantially (70.9% in 2000; 71.0% in 1999).

The foreign trade deficit increased by 87.0 million lats, totalling 802.6 million lats (see Table 2). The largest negative balances were in machinery and mechanical appliances, electrical equipment, mineral products, transport vehicles and products of the chemical and allied industries. Due to growing exports, the negative balance of products of the chemical and allied industries decreased, while growing imports was the reason for a decrease in the positive balance on textiles and textile articles. Only several product groups had a surplus: wood and articles of wood, textiles and textile articles, and miscellaneous manufactured articles (mainly furniture). The surplus of wood and articles of wood covered half of the foreign trade deficit. The United Kingdom was the only one of the principal foreign trade partners with whom Latvia had a positive trade balance, and in 2000, it increased (to 145.2 million lats). The negative trade balances declined for the Netherlands, Sweden and Norway, while increasing for Russia, Belarus, the United States and Germany.

Table 2

LATVIA'S FOREIGN TRADE

(exports – in FOB prices; imports – in CIF prices; in millions of lats)

	1998	1999	2000
Exports	1 068.9	1 008.3	1 131.3
Imports	1 881.3	1 723.9	1 933.9
Balance	-812.4	-715.6	-802.6

Source: Central Statistical Bureau of Latvia.

Latvia's principal foreign trade partners were the EU Member States (56.9% of foreign trade turnover). Latvia's exports to the EU grew by 100.3 million lats, accounting for 64.6% of total exports. Imports from the EU increased by 73.9 million lats (to 52.4% of total imports). Exports to the CIS countries continued to decline (by 22.9 million lats; to 8.7% of total exports; 12.0% in 1999). This was a result of a decrease in exports to Russia (by 19.1 million lats). At the same time, imports from the CIS countries rose by 69.2 million lats as a result of an increase in imports of mineral products, due to rising oil prices. Latvia exported its goods mainly to the United Kingdom, Germany, Sweden, Lithuania and Denmark, and imported goods from Germany, Russia, Finland, Lithuania and Sweden. In the group of other countries, substantial increases were recorded for exports to Estonia (by 12.9 million lats), Lithuania (by 9.8 million lats) and Canada (by 7.0 million lats), but a decrease, for exports to the United States (by 15.2 million lats).

In the reporting year, Latvia's principal export goods were wood and articles of wood (37.4% of total exports), textiles and textile articles (14.0%), base metals and articles of base metals (13.4%), and products of the chemical and allied industries (6.4%). Export growth was observed in almost all product groups. Significant increases were in exports of wood and articles of wood (47.3 million lats), base metals and articles of base metals (35.5 million lats), machinery and mechanical appliances, electrical equipment (12.5 million lats), and products of

the chemical and allied industries (11.1 million lats). Wood and articles of wood were exported to the United Kingdom (38.7% of total exports of these products), Sweden (19.4%) and Germany (13.1%). Exports of wood and articles of wood to the United Kingdom and Sweden grew, while such exports to Germany declined. Exports of wood and articles of wood to Ireland, Denmark and Egypt grew significantly (by 8.6 million lats, 5.1 million lats and 4.0 million lats, respectively), confirming that markets for these products expanded. The principal markets for textiles and textile articles were Germany (21.2%), Denmark (13.3%) and Sweden (13.2%). Exports of this product group to the United Kingdom (by 3.2 million lats), the Netherlands, the United States, Slovakia, France and Ukraine increased, but its exports to Russia decreased substantially (by 4.4 million lats). Export markets for base metals and articles of base metals changed: in 1999, the dominating market was the United States (36.7%), but in 2000, European markets—Germany (33.9%), the United Kingdom (8.4%) and the Netherlands (5.9%)—dominated. The share of the United States decreased to 13.6% of total exports of base metals and articles of base metals. These products were supplied also to new markets (Canada, Algeria, Nigeria, Iran, Ireland; the total volume of 18.4 million lats). Products of the chemical and allied industries were exported mainly to Lithuania (25.9%), Estonia (17.6%) and Russia (10.8%). Principal export markets for furniture were Germany (28.6%) and Denmark (24.6%). Lithuania (17.6%), Russia (16.3%), Germany (13.3%) and Sweden (9.0%) were the principal countries to which machinery and mechanical appliances, electrical equipment were exported. Exports of machinery and mechanical appliances, electrical equipment to Lithuania, Germany and Denmark increased.

In 2000, the principal import goods were machinery and mechanical appliances, electrical equipment (20.7% of total imports), mineral products (12.9%), products of the chemical and allied industries (10.6%), base metals and articles of base metals (8.4%), transport vehicles (7.8%), and textiles and textile articles (7.6%). Total imports grew by 210.0 million lats; moreover, growth was observed in nearly all product groups. The principal import increases were in mineral products (53.6 million lats), base metals and articles of base metals (42.4 million lats), machinery and mechanical appliances, electrical equipment (22.3 million lats), vegetable products (17.3 million lats), and textiles and textile articles (15.8 million lats). In imports of machinery and mechanical appliances, electrical equipment, the largest part was from Germany (19.6%), Finland (18.2%) and Sweden (8.3%). The largest growth in imports of these products was observed for Germany, Finland, Poland and Lithuania, while decreases for the United Kingdom and Russia. Products of the chemical and allied industries were brought into Latvia mainly from Germany (14.7%), and less frequently from Switzerland, Russia, Estonia, Finland and Poland. Imports of mineral products from Russia and Belarus rose rapidly, while falling from Norway and Finland. Russia supplied 51.6% of all mineral products. Transport vehicles came into Latvia mainly from Germany (33.0%), Sweden (12.6%) and Finland (8.6%). The most substantial growth in imports of transport vehicles was observed for Germany (11.0 million lats). The dominating countries in imports of textiles and textile articles were Germany (19.3%), Sweden (14.6%) and Denmark (11.3%). Textiles and textile articles were increasingly imported from Italy, the United Kingdom, France and Poland. Main imports of base metals and articles of base metals were from Russia (20.2%), Germany (13.3%), Estonia (7.9%) and Finland (7.9%); moreover, imports of this product group from all above countries rose. Also, such imports increased from Lithuania, Ukraine, Belarus and France.

The principal currencies used in foreign trade transactions were US dollars (43.6% of foreign trade turnover) and the currencies of the EMU Member States (35.5%).

The share of US dollars contracted slightly, while that of the currencies of the EMU Member States expanded. At the same time, the shares of Swedish crowns and Russian rubles decreased, but the shares of Latvian lats, British pounds and Danish crowns increased.

In 2000, the real and nominal effective exchange rates of the lats, as measured against the basket of the currencies of Latvia's ten major trading partners, rose by 5.0% and 8.5%, respectively. The trade-weighted real effective exchange rate of the lats increased against the currencies of developed countries (by 14.0%; mainly as a result of the increase in the nominal effective exchange rate of the lats, which was caused by the weakening of the euro). Concurrently, the trade-weighted real effective exchange rate of the lats fell against the currencies of transition economies (by 9.4%; due to higher inflation in these countries), as did its trade-weighted nominal effective exchange rate (by 1.3%).

In 2000, the current account deficit totalled 296.0 million lats or 6.8% of GDP (9.6% in 1999). The principal contributor was the goods deficit, which increased by 45.7 million lats. The current account deficit decreased due to a number of factors: the services surplus increased (by 77.1 million lats); the income balance improved by 43.4 million lats, turning positive; and GDP grew substantially. As the balances of all services components improved, the services surplus reached 273.7 million lats, covering 42.5% of the goods deficit. Services rendered increased more markedly than services received.

The principal sources for financing the current account deficit were foreign investment and long-term loans. The net inflow of direct investment amounted to 242.3 million lats, while that of other investment was 267.6 million lats. A net outflow of 203.5 million lats was observed for portfolio investment. In 2000, the inflow of foreign currency in Latvia was larger than needed to cover the current account deficit; and therefore, reserve assets increased by 16.0 million lats, and the balance of payments was in surplus.

FISCAL POLICY

In 2000, the fiscal deficit in the general government consolidated budget was 121.9 million lats or about 2.8% of GDP, considerably smaller than in 1999, when it was 4.0% of GDP, and below the level prescribed by the Law "On the State Budget for 2000". The financial deficit in the general government consolidated budget was 122.1 million lats. In 2000, the general government consolidated budget deficit was mainly financed by issuing government securities. The decrease in the fiscal deficit could be explained with a larger-than-projected GDP growth and smaller-than-planned expenditures. Compared with 1999, revenue in the general government consolidated budget increased by 2.7%, whereas expenditure (including net lending), by 1.1%.

Tax revenues showed year-on-year growth. The largest growth was observed for revenues from the value added tax and the private person income tax (6.8% and 8.2%, respectively). Excise tax revenue increased by 6.0%. Although the rate for social security contributions was reduced gradually, their revenue rose by 3.0%. In 2000, the largest decrease was observed for revenue from the enterprise income tax (20.1%). Revenues from the property tax and customs duties also decreased.

In 2000, the central government basic budget revenue was 681.4 million lats (a year-on-year increase of 5.1%) and expenditure was 753.0 million lats (a year-on-year increase of 8.8%); net lending amounted to 49.3 million lats. The fiscal deficit

totalled 120.9 million lats (a year-on-year decrease of 5.6 million lats). Capital expenditure grew by only 1.4%, and regular expenditure, by 9.6%.

In the special budget, both revenue and expenditure decreased below the 1999 level (by 9.3% and 3.2%, respectively). The special budget's fiscal deficit was 39.7 million lats (a year-on-year decrease of 2.3 times). The fiscal deficit in the social security budget declined at a similar pace (from 57.6 million lats to 29.2 million lats). Compared with 1999, this budget's revenue grew by 3.1%, while expenditure, due to changes in pension legislation, declined by 2.7%. The fiscal deficit in the special budget was financed by borrowing from the central government basic budget.

The local government consolidated budget revenue and expenditure were larger than in 1999 (by 7.7% and 8.3%, respectively). The budget's fiscal deficit was 13.1 million lats (a year-on-year decrease of 9.0%).

The government debt increased by 59.3 million lats in 2000 (to 570.0 million lats). The government external debt decreased by 11.9 million lats, while its internal debt increased by 71.2 million lats.

MONEY SUPPLY

The principal monetary indicators of the Latvian banking system and the Bank of Latvia have been reflected in Appendix 1 of the Report. Broad money M2X¹ increased by 27.9% (by 8.0% in 1999), reaching 1 275.9 million lats at the end of 2000 (see Chart 2).

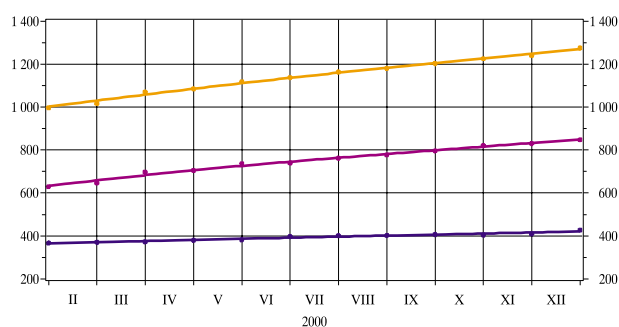
Chart 2

BROAD MONEY (in millions of lats)

M2X (broad money)

Deposits of domestic enterprises and private persons

Currency outside banks



Broad money grew steadily throughout the year: by 14.1% in the first half of the year and by 12.1% in the latter half. The increase in the money supply was determined by escalating economic growth. It was seasonally more rapid in the summer and at the end of the year, when broad money grew as a result of rising private persons' demand for cash. The contribution of an increase in loans granted by banks was even larger.

Economic stability and growing savings were the reasons for a decline in the velocity of money (from 3.67 in 1999 to about 3.4 in 2000).

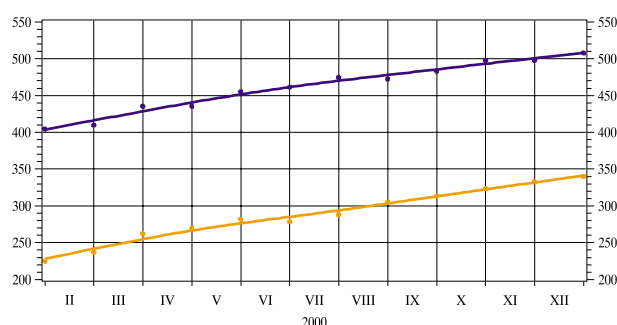
Confidence in the banking sector grew, purchasing power rose, and the enterprise sector strengthened; all this made deposits received from domestic enterprises and private persons increase at a more rapid pace than in 1999 (by 36.9%; by 6.3% in 1999; see Chart 3). Currency outside banks increased by 13.3% (by 10.9% in 1999). The decisive factor was the seasonal growth in currency in circulation in

¹ Currency outside banks + deposits in lats and foreign currencies received from domestic enterprises and private persons.

Chart 3

**DEPOSITS OF DOMESTIC ENTERPRISES
AND PRIVATE PERSONS WITH BANKS**
(at end of period; in millions of lats)

Time deposits
Demand deposits



June and December (4.0% and 4.4%, respectively). The cash component in broad money decreased to 33.5% at the end of 2000 (37.8% at the end of 1999), reflecting the increasing prevalence of non-cash in circulation. In broad money, the share of demand deposits decreased from 40.2% at the end of 1999 to 39.8% at the end of 2000, while the expanding share of time deposits (from 21.9% to 26.7%, respectively) indicated to a long-term economic stability. In time deposits, the share of deposits of domestic private persons increased (to 59.1%), strengthening their dominance. In demand deposits, deposits of domestic enterprises accounted for the largest part (58.8%); however, the share of deposits of domestic private persons increased.

Growth in deposits in lats (40.1%) was more pronounced than that in deposits in foreign currencies (33.3%). As a result, the share of deposits in lats reached 53.1% of total deposits (51.8% at the end of 1999).

Within broad money, quasi-money¹, its less liquid component, grew at a more rapid pace (37.4%) than M1², its more liquid component (21.9%).

In the reporting year, credit institutions' assets grew by 811.0 million lats or 40.5%. The highest level of the banking sector's net foreign assets was observed at the end of August, while at the end of the year, they showed growth of only 1.0 million lats over the level at the end of 1999. This was determined by equal increases in the banking sector's foreign liabilities and foreign assets, and at the end of the year, the share of foreign liabilities was 51.5% of the total balance and that of foreign assets was 51.4%. The following items of foreign assets increased: demand and short-term deposits with foreign credit institutions (1.7 times; to 720.7 million lats), investment in debt securities of banks and the private sector (2.3 times; to 210.6 million lats), assets in trust (1.7 times), investment in foreign government securities (by 17.6%) and investment in shares of foreign companies (2.7 times). Loans to foreign non-banks declined (by 17.8%), as did vault cash in foreign currencies (by 12.6%). All principal items of the banking sector's foreign liabilities grew rapidly, including liabilities to foreign credit institutions (by 24.1%) and deposits of foreign non-banks (by 56.9%).

An increase of 20.0 million lats in the banking system's net foreign assets was a result of growth in the Bank of Latvia's foreign reserves.

An increase in the growth rate of loans was facilitated by the following factors: the Latvian economy had overcome the consequences of the 1998 Russian financial crisis; and the real money demand rose, as the macroeconomic environment stabilized, financial intermediation expanded, and credit institutions' funds grew. In

¹ Time deposits in lats received from domestic enterprises and private persons + deposits in foreign currencies received from domestic enterprises and private persons.

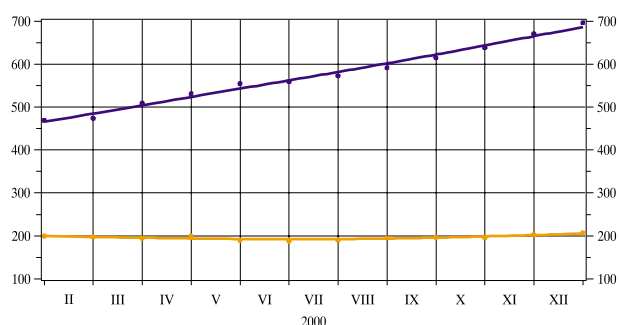
² Currency outside banks + demand deposits in lats received from domestic enterprises and private persons.

the banking sector's assets, the share of loans granted to domestic enterprises and private persons did not change substantially (32.2% at the end of 2000). Loans granted to domestic enterprises and private persons during the year increased by 247.9 million lats or 37.8%. The banking sector's net claims on the central government grew by 73.2 million lats or 1.9 times. Growth in long-term loans granted to domestic enterprises and private persons was mainly facilitated by relatively low interest rates on such loans and longer maturity of funds at banks' disposal, which allowed banks to increase the supply of loans with longer maturity. In the reporting year, long- and short-term loans to domestic enterprises and private persons grew (by 225.6 million lats or 47.9% and 22.3 million lats or 12.1%, respectively; see Chart 4). Long-term loans, therefore, accounted for 77.1% of total loans at the end of 2000 (71.8% at the end of 1999). A more rapid increase in loans granted in lats could be explained with lower interest rates on long-term loans in lats and a higher exchange rate of the US dollar, which was the reason why loans in foreign currencies were disadvantageous for domestic borrowers. The share of loans in lats increased by 6.9 percentage points (to 48.3%).

Chart 4

LOANS TO DOMESTIC ENTERPRISES AND PRIVATE PERSONS
(at end of period; in millions of lats)

Short-term
Long-term



Loans increased in the majority of the sectors of the national economy. Substantial increases were recorded in loans to trade (56.1 million lats or 40.2%), financial intermediation (31.9 million lats or 2.5 times), other services (21.8 million lats or 31.1%), transport, storage and communications (20.9 million lats or 28.6%) and manufacturing (20.0 million lats or 13.5%). At the end of 2000, the largest part of loans was in trade (26.3% of loans to domestic enterprises; the share of such loans increased by 1.5 percentage points), manufacturing (22.6%; the share of such loans decreased by 3.8 percentage points), and transport, storage and communications (12.6%; the share of such loans decreased by 0.4 percentage points). In 2000, short-term loans were mainly granted to trade (37.9% of short-term loans) and manufacturing (26.4%). Also, the bulk of long-term loans went to the two above sectors (22.4% and 21.3% of such loans, respectively).

LENDING AND DEPOSIT RATES

The country's stable macroeconomic position determined lesser business risks and lower inflation; with bank competition escalating, banks expanded the range of services, and interest rates on loans (in particular on long-term loans) fell (see Chart 5).

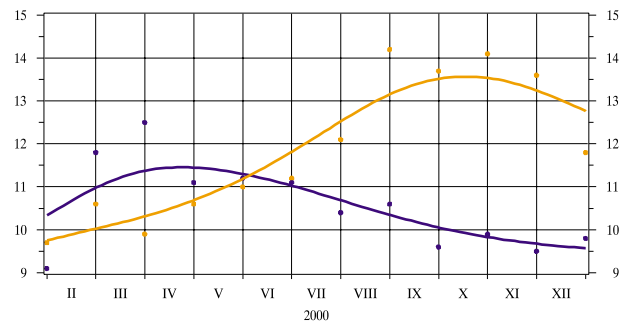
The weighted average interest rate on long-term loans in lats dropped by 2.8 percentage points (from 12.6% in December 1999 to 9.8% in December 2000). The weighted average interest rate on short-term loans in lats was within the range of 9.7%–14.2%, and its fall was slowed down by the growing demand for short-term funds and banks' specialization in lending.

The weighted average interest rate on loans in lats granted to enterprises (9.3%–

Chart 5

WEIGHTED AVERAGE INTEREST RATES ON LOANS IN LATS GRANTED TO ENTERPRISES AND PRIVATE PERSONS (%)

Short-term
Long-term



14.1% on short-term loans, 8.9%–12.3% on long-term loans) was lower than that on loans to private persons. The weighted average interest rate on loans in lats to private persons dropped. The weighted average interest rate of such short-term loans was 12.3%–20.4%, and that of such long-term loans was 11.0%–13.9%.

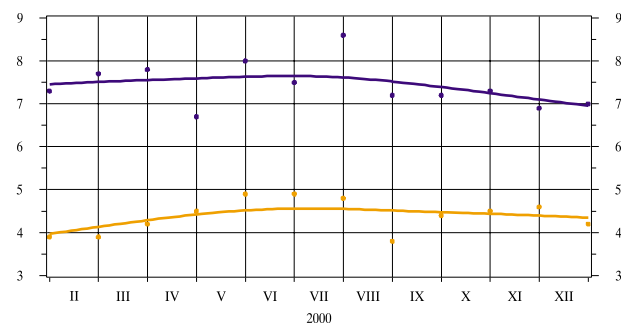
The weighted average interest rate of short-term loans in the currencies of the OECD countries ranged from 11.9% to 14.7%, while that of long-term loans, from 8.9% to 11.7%. They remained at approximately the same level as in the last two years.

The weighted average interest rate of short-term deposits in lats of enterprises and private persons was 3.8%–4.9% and that of long-term deposits 6.7%–8.6% (see Chart 6), only slightly differing from the 1999 level. Escalation in bank competition with regard to long-term deposits and the demand for long-term funds only led to a rise in the real deposit rate level. The real interest rate of short-term deposits in lats ranged from 1.5% to 2.5%, while that of long-term deposits was approximately 5%. Falling inflation was the reason for increases in the real interest rates of short-term and long-term deposits.

Chart 6

WEIGHTED AVERAGE INTEREST RATES ON LATS DEPOSITS OF ENTERPRISES AND PRIVATE PERSONS (%)

Short-term
Long-term



The real interest rates on short-term loans in lats granted to enterprises and private persons were within the range of 10%–12%, and the real interest rates of long-term loans, within the range of 7%–9%. In the latter half of the year, interest rates had a tendency to stabilize, and the real lending rates fell by about 3 percentage points compared with 1999.

In 2000, the spread between the weighted average interest rates of loans and deposits in lats was 6–9 percentage points for short-term transactions, with a tendency to narrow towards the end of the year, and 2–4 percentage points for long-term transactions, with a tendency to narrow throughout the year. The spread between the weighted average interest rates of loans and deposits (in particular long-term) was considerably narrower than in the previous years.

THE INTERBANK MARKET

The interbank market turnover continued to increase in 2000. The monthly amount of interbank loans granted to domestic banks was 222.2 million lats (201.9 million lats in 1999), and in 2000, loans were granted in the amount of 2.7 billion lats.

Escalating economic activity and the stability of the national currency fostered an increase in the share of loans granted in lats in the turnover of domestic interbank loans (to 78.1%; 68.6% in 1999). The largest part of interbank loans was overnight loans (78.4%) and loans with maturity of up to 1 month (20.5%). The low domestic interbank market turnover at the beginning of the year was attributable to banks' ample liquidity at the end of 1999 and the lowest monthly amount of loans issued in January (166.9 million lats). In the subsequent months, activity in the interbank market gradually mounted, and in August, the monthly turnover peaked at 296.0 million lats. In the last months of 2000, lending in the interbank market slightly decreased, because banks supported their liquidity by borrowing funds in lats at the Bank of Latvia, and the demand for foreign currencies rose.

Although interest rates on longer maturity interbank loans followed a downward trend, the weighted average interest rate of overnight loans in lats was dependent on banks' liquidity and the fulfilment of the reserve requirement. The weighted average interest rate on overnight loans in lats reached its low in January (1.5%), while peaking in October (4.7%). At the same time, the weighted average interest rate on overnight loans in the currencies of the OECD countries rose slightly (from 5.2% in January to 5.7% in December).

The banking sector's loans to foreign credit institutions grew 2.1 times (to 52.6 billion lats).

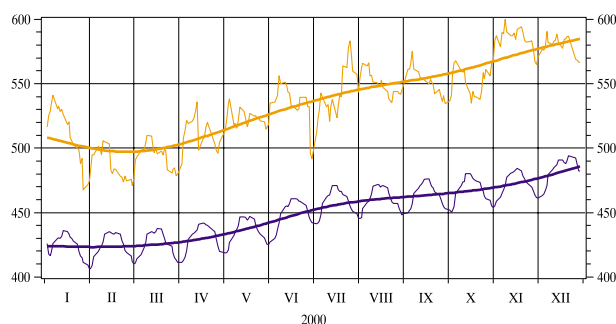
MONETARY BASE

In 2000, the monetary base $M0^1$ grew by 7.7%, at a slightly slower pace than in 1999, reaching 566.7 million lats at the end of the year (see Chart 7). As the demand for cash rose (currency in circulation increased by 56.2 million lats or 13.2% in 2000), credit institutions' deposits with the Bank of Latvia declined (by 15.7 million lats or 15.7%). This was promoted by a decrease in the reserve requirement as of December 1, 2000 (to 6%). The cash component of the monetary base rose to 85.1% (81.0% at the end of 1999). Growth in the monetary base resulted from an increase of 18.9 million lats in net foreign assets (mainly due to currency swap arrangements; see Chart 8) and a decrease in the Government's deposit with the Bank of Latvia. The Bank of Latvia's credit to banks (42.5 million lats) was considerably smaller than at the end of 1999.

Chart 7

MONETARY BASE
(in millions of lats)

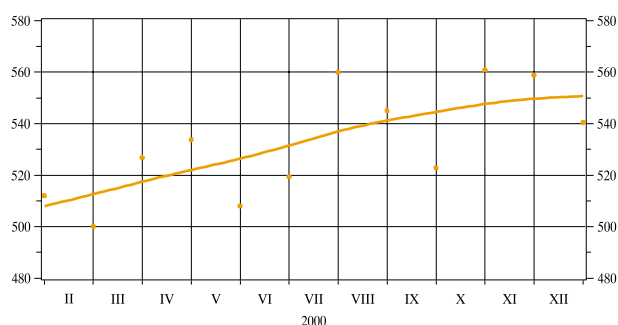
Monetary base
Currency in circulation



¹ Currency in circulation + deposits with the Bank of Latvia.

Chart 8

NET FOREIGN ASSETS OF THE BANK OF LATVIA
(in millions of lats)



As the balance on the Bank of Latvia's currency swap arrangements increased by 49.4 million lats (in particular in July and October; an increase of 1.8 times in the amount of currency swap arrangements), the Bank's net foreign assets grew by 3.6% (to 540.5 million lats), in December equalling 3.4 months' imports (3.6 in December 1999). The backing of the national currency with the Bank of Latvia's net foreign assets was 95.4% (99.1% at the end of 1999). It was only in December that the Bank of Latvia intervened in the market to meet the increased demand for foreign currencies.

The Bank of Latvia's net domestic assets grew by 21.6 million lats. A decline of 20.8 million lats in the Bank's credit to banks was offset by an increase of 22.9 million lats in net claims on the Government. The Bank's credit granted during the year (321.8 million lats) was 2.1 times below the 1999 level. This was a result of the banking sector's growing stability and lack of sharp changes in liquidity, as well as expansion in the interbank market. Banks' demand for the Bank of Latvia's credit peaked in October, August and September, and credit granted during these periods accounted for 44.9% of the total volume of the Bank of Latvia's credit to banks. Of the Bank of Latvia's credit to banks, 91.2% was loans under repurchase agreements, 7.3% was demand Lombard loans and 1.5% was automatic Lombard loans (for the average monthly credit, see Table 3).

Table 3

THE BANK OF LATVIA'S CREDIT TO BANKS
(average balances; in millions of lats)

	1998	1999	2000
January	8.5	42.5	54.9
February	11.9	60.7	41.5
March	14.4	74.9	39.6
April	13.4	71.0	38.6
May	15.8	55.7	46.3
June	10.1	48.7	43.2
July	17.2	42.4	43.5
August	17.4	37.9	36.1
September	33.1	48.1	37.0
October	34.2	38.2	36.6
November	33.9	40.0	31.5
December	37.5	53.1	38.7

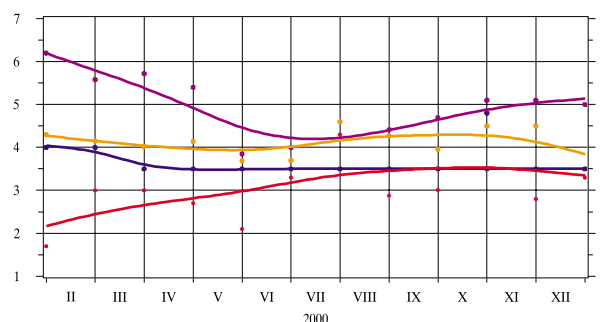
Loans issued under repurchase agreements were of 7-, 28- and 91-day maturity. Loans issued under repurchase agreements showed the following totals by maturity: 189.9 million lats with 7-day maturity, 58.0 million lats with 28-day maturity, and 45.6 million lats with 91-day maturity. Year-on-year decreases were recorded for loans under repurchase agreements (1.7 times), demand Lombard loans (6.7 times; to 23.5 million lats) and automatic Lombard loans (3.8 times; to 4.8 million lats).

As of March 17, 2000, the Bank of Latvia's refinancing rate has been reduced from 4.0% to 3.5%. The repo rate changed in line with movements in interbank market rates; however, on the whole, it was more stable than in the previous year. The repo rate fell from 4.3% in January to 3.7% in May, and after a rise to 4.6% in July, it dropped to 3.5% in December (see Chart 9).

Chart 9

INTEREST RATES IN THE MONEY MARKET (%)

The Bank of Latvia's refinancing rate
 Weighted average repo rate
 Weighted average yield on 6-month bills
 Weighted average interest rate on domestic interbank loans in lats



THE FOREIGN EXCHANGE MARKET AND LATVIA'S EXTERNAL DEBT

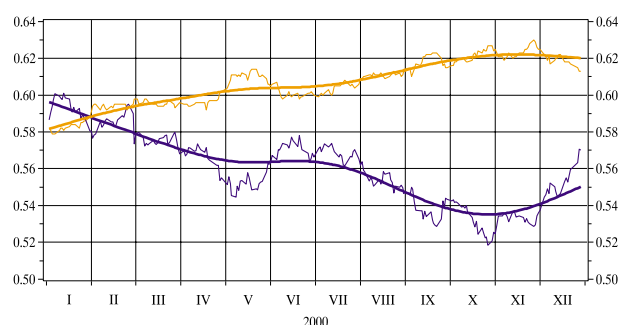
In 2000, the global foreign exchange market was volatile. Movements of the SDR basket currencies were largely prompted by economic and political problems and the way of resolving them in the EU, stagnation in the Japanese economy and its slow recovery, and the moderation in the rapid expansion in the US economy.

As the US dollar appreciated against the other currencies of the SDR basket, its exchange rate also increased against the lats (from 0.583 to 0.613; by 5.1%; see Chart 10). The US dollar reached its high against the lats on November 27, 2000 (0.6300). During the year on several occasions, the exchange rate of the lats was close to the Bank of Latvia's selling rate quoted for the US dollar; and therefore, the Bank of Latvia intervened in the market by selling US dollars and buying lats.

Chart 10

EXCHANGE RATES OF THE US DOLLAR AND THE EURO SET BY THE BANK OF LATVIA (in lats)

Exchange rate of the US dollar
 Exchange rate of the euro



According to the international investment position, Latvia's gross external debt increased by 651.8 million lats, totalling 2 898.6 million lats at the end of 2000 (66.9% of GDP). At the end of the year, foreign assets amounted to 2 324.1 million lats, and net external debt was 574.5 million lats (13.3% of GDP). Long-term debt was 1 150.5 million lats, and short-term debt, 1 748.1 million lats. Their shares in the total did not change much; however, that of short-term debt slightly increased in 2000 (to 60%).

At the end of 2000, the sectoral breakdown of external debt was as follows: general government 13%, banks 50% and enterprises 37%.

At the end of 2000, the government external debt was 366.1 million lats (8.4% of GDP; including the Bank of Latvia's external liabilities in the amount of 7.0 million

lats). In 2000, the Government received foreign loans in the amount of 39.5 million lats (including the structural adjustment loan granted by the World Bank in the amount of 40.4 million US dollars or 24.0 million lats). To service foreign borrowing, 69.5 million lats were used in 2000; this amount equals 6.1% of the annual volume of exports. The Government finished the repayment of G-24 loans. The EU loan of 40.0 million euros (23.0 million lats) and the loan (13.4 million US dollars or 8.3 million lats) granted by the Swedish Export Credit Corporation were repaid. Repayments under the IMF's Systemic Transformation Facility were made in the amount of 7.6 million XDR (6.1 million lats).

At the end of the year, the banking sector's external debt was 1 448.8 million lats (including 144.7 million lats for long-term liabilities and 1 304.1 million lats for short-term liabilities). Deposits accounted for the bulk of the banking sector's short-term liabilities (1 118.1 million lats). The banking sector's net external debt was 36.8 million lats at the end of 2000 (the banking sector's external claims covered 97.5% of its external debt).

The enterprise sector, as compared to the banking sector, had a larger share of long-term liabilities. At the end of 2000, enterprises' foreign liabilities totalled 1 083.7 million lats, of which 647.2 million lats was long-term liabilities (60% of enterprises' debt) and 436.5 million lats was short-term liabilities (mainly trade credits).

THE SECURITIES MARKET

The Bank of Latvia continued to act as the Government's agent in organizing auctions of and accounting for government securities in the primary market for Latvian government securities.

Supply and demand in the government securities market were considerably higher than in 1999, as were the sales of government securities. This was largely a result of the issues of new government securities: 3- and 5-year bonds. At the same time, the demand for bills of shorter maturity was low, and in those months when no bonds and 12-month bills were supplied, issues of government securities were either low (in August and October) or did not take place (in July). The demand and supply ratio of government securities reached 2.2 (1.8 in 1999).

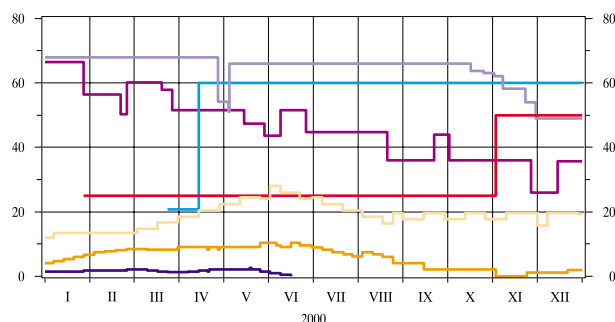
In 2000, the supply of government securities rose by 8.7% (to 252.3 million lats). In view of the decreasing demand for short-term government securities and to increase the share of long-term borrowing in the government debt, the Ministry of Finance of the Republic of Latvia made a decision to change the schedule for the issuance of government securities as of May 24, 2000. As issues of longer maturity government securities (3- and 5-year bonds) were enacted, issues of 1-month bills and 2-year bonds were terminated, while the issues of 3- and 6-month bills were less frequent but larger. In contrast to previous periods, when 1- and 3-month bills and government securities of longer maturity were auctioned once a week each, the Ministry of Finance did not hold auctions more than once a week.

The stock of government securities outstanding increased by 47.9% during the year, totalling 215.7 million lats at the end of the year. In 2000, the most marked decreases were observed in the shares of 2-year bonds and 12-month bills (to 22.7% and 16.5% of the stock of government securities outstanding). At the same time, the shares of newly issued 3- and 5-year bonds respectively reached 23.2% and 27.8% of the total at the end of the year. Of the stock of government securities outstanding, 6-month bills accounted for 8.9% and 3-month bills for 0.9% (for the stock of government securities outstanding during the year, see Chart 11).

Chart 11

**STOCK OF LATVIAN GOVERNMENT
SECURITIES OUTSTANDING**
(in millions of lats)

- 1-month bills
- 3-month bills
- 6-month bills
- 12-month bills
- 2-year bonds
- 3-year bonds
- 5-year bonds

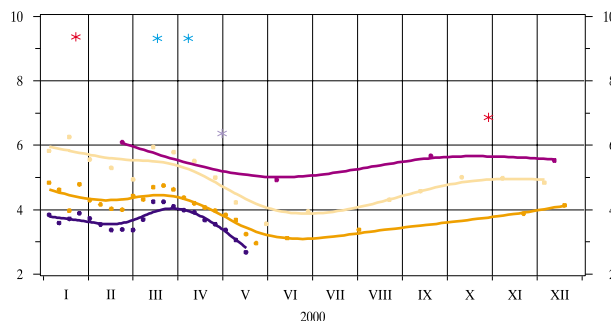


Yields on government securities were lower in the reporting year (see Chart 12). The weighted average yield on 3-month bills declined from 5.30% in December 1999 to 4.18% in December 2000, that of 6-month bills from 5.63% to 4.96%, and that of 12-month bills from 8.19% to 5.86%. The lowest level of the weighted average yields was in May and June, when the Bank of Latvia intervened in the secondary market for government securities. During the year, the weighted average yields on bonds were lower than projected and had a tendency to decline. The weighted average yield of 3-year bonds was 9.34% in the January issue and 6.86% in the November issue, while that of 5-year bonds fell from 9.13% in the March issue to 8.82% in the April issue. At the same time, the weighted average yield on 2-year bonds in the May issue (6.31%) was nearly twice lower than in the previous issue in October 1999.

Chart 12

**WEIGHTED AVERAGE DISCOUNT RATES
AND FIXED INCOME RATES OF
GOVERNMENT SECURITIES**
(%)

- 1-month bills
- 3-month bills
- 6-month bills
- 12-month bills
- * 2-year bonds
- * 3-year bonds
- * 5-year bonds



In the reporting year, the volume of the Bank of Latvia's transactions in the secondary market for government securities was considerably larger than in the previous year. The Bank of Latvia bought and sold government securities in the amount of 104.2 million lats and 21.7 million lats, respectively (in 1999, the Bank bought government securities in the amount of 31.2 million lats, while it did not enter into selling transactions). All above transactions were conducted within the first half of the year, but as of July, the Bank of Latvia's portfolio of government securities started declining gradually, as these securities became redeemable. Such change in the Bank of Latvia's conduct in the secondary market for government securities occurred, because after the issues of 3- and 5-year bonds from January to April, the Bank sought to offset the impact of the growing Government's deposit with the Bank on the money supply.

The share of the Bank of Latvia's transactions in the secondary market for government securities expanded to 14.6% of all transactions in the market (7.5% in 1999). In 2000, the turnover on the secondary market for government securities rose 2.1 times, reaching 862.7 million lats. The share of transactions between banks and resident non-banks expanded from 70.6% in 1999 to 74.7% in the reporting year, while the shares of transactions between banks and non-residents and trans-

actions among domestic banks decreased (from 11.8% to 6.2% and from 10.2% to 4.5%, respectively). By the end of 2000, government securities (including securities held under repurchase agreements) held by the Bank of Latvia decreased to 33.7% (57.4% in 1999), while the domestic banking sector, resident non-banks and non-resident non-banks respectively held 58.8%, 4.5% and 3.0% of the stock of government securities outstanding.

In 2000, activity in the Latvian market for private sector securities mounted, as did activities of the Riga Stock Exchange (RSE).

During the year, the total of nominal values of public shares registered at the Latvian Central Depository increased by 15 million lats or 5.6%, reaching 287 million lats. At the same time, the capitalization of the market for these securities increased by 110 million lats (1.7 times), amounting to 276 million lats. In 2000, the market for corporate debt securities expanded rapidly, and the total of nominal values of such securities issued in public sales grew more than two times, reaching 33 million lats. The establishment of two new open-end funds marked a rapid development of a new type of securities in Latvia—fund units (an increase in value from 0.2 million lats to 4.9 million lats).

In 2000, the total stock market capitalization declined from 513 million lats to 400 million lats (by 22.0%). The principal reason for the decline was the discontinuation of quoting *Hansapank* shares (Estonia) on the RSE in January. The Dow Jones Riga Stock Exchange (DJRSE) Index, which is calculated based on shares in the largest and most liquid Latvian companies listed on the RSE, rose by 58.5% in the reporting year (to 139.2; the DJRSE Index peaked at 145.3 on November 22). The DJRSE Index rose from February to March (this trend was promoted by the auction of shares in the JSC *Latvijas Gāze*), and particularly rapidly from August to October (due to the announcement by *Skandinaviska Enskilda Banken*, the largest shareholder in the JSC *Latvijas Unibanka*, regarding its intentions to purchase the rest of the shares in the bank, paying a price larger than that listed on the RSE).

As government securities were also actively traded on the RSE, the RSE turnover reached 555.7 million lats in 2000 (29.4 million lats in 1999). This was mainly a result of trading in government debt securities, which was started in the second half of 1999; moreover, trading in other securities also increased. The volume of share trading rose from 25.2 million lats to 168.5 million lats, but that of debt securities from 4.2 million lats to 387.2 million lats. The turnover of corporate securities reached 8.5% of the turnover of debt securities.

2000 HIGHLIGHTS OF NORMATIVE ACTS ADOPTED IN PURSUIT OF THE BANK OF LATVIA'S MAIN TASKS

January 13

The Board of Governors of the Bank of Latvia adopted amendments to the "Regulation for Calculating Credit Institution Performance Indicators" (in effect as of January 31, 2000).

March 16

The Board of Governors of the Bank of Latvia passed the Resolution "On Interest Rates" (in effect as of March 17, 2000), lowering interest rates by 0.5 percentage points. The refinancing rate was set at 3.5% per year. The following maturities and interest rates were established for bank deposits with the Bank of Latvia: 7 days, 1.50% per year; and 14 days, 1.75% per year. Lombard rates, which are dependent on the duration of credit utilization within a period of 30 consecutive days beginning with the day the credit is granted, were set at 5.5% per year if the credit is utilized for a period of up to 10 days, at 6.5% per year if the credit is utilized for 11 to 20 days, and at 7.5% per year as from the 21st day of credit utilization.

The Board of Governors of the Bank of Latvia adopted the "Regulation for Calculating Capital Adequacy" (partly in effect as of July 1, 2000; fully effective as of January 1, 2001).

The Board of Governors of the Bank of Latvia passed the Resolution "On Transactions with Bills of Exchange and Cheques" (in effect as of April 1, 2000).

March 24

The Board of Governors of the Bank of Latvia adopted the "Regulation for Long-Term Currency Swaps" (in effect as of April 15, 2000).

The Board of Governors of the Bank of Latvia passed the Resolution "On Long-Term Currency Swaps", setting the minimum lats interest rate at 6.5% per year for 2-year currency swaps.

May 24

The Board of Governors of the Bank of Latvia adopted the "Regulation for Compliance with Liquidity Requirements" (in effect as of July 1, 2000).

The Board of Governors of the Bank of Latvia adopted the "Regulation for Compliance with Restrictions on Exposures" (in effect as of July 1, 2000).

The Board of Governors of the Bank of Latvia adopted the "Regulation for the Preparation of Credit Institution Investment Reports" (in effect as of July 1, 2000).

July 13

The Board of Governors of the Bank of Latvia adopted the "Guidelines for Developing Procedures for Identifying Suspicious Financial Transactions".

The Board of Governors of the Bank of Latvia adopted the "Regulation for the Securities Settlement System Organized by the Bank of Latvia" (in effect as of September 8, 2000).

The Board of Governors of the Bank of Latvia adopted the new version of the "Regulation for Granting Lombard Loans" (in effect as of September 8, 2000).

The Board of Governors of the Bank of Latvia adopted the new version of the "Regulation for Preparing Information on External Payments of Non-Banks" (in effect as of January 1, 2001).

The Board of Governors of the Bank of Latvia adopted amendments to the "Regulation for Consolidated Banking Supervision" (in effect as of August 1, 2000).

July 27

The Executive Board of the Bank of Latvia adopted the new version of the "Regulation for Interbank Settlements Effected by the Bank of Latvia" (in effect as of September 8, 2000).

The Executive Board of the Bank of Latvia adopted the "Regulation for Repo Tenders of Securities at the Bank of Latvia" (in effect as of September 8, 2000).

August 3

The Executive Board of the Bank of Latvia adopted the "Regulation for Tenders of the Secondary Market for Securities Organized by the Bank of Latvia" (in effect as of September 8, 2000).

The Executive Board of the Bank of Latvia adopted the "Regulation for Reverse Repo Tenders of Securities at the Bank of Latvia" (in effect as of September 8, 2000).

August 10

The Executive Board of the Bank of Latvia adopted the "Regulation for Cash Transactions by Credit Institutions at the Bank of Latvia" (in effect as of September 8, 2000).

August 15

The Governor of the Bank of Latvia adopted the "Regulation for the Initial Placement of Latvian Government Securities" (in effect as of September 8, 2000).

August 31

The Executive Board of the Bank of Latvia adopted the "Regulation for Tenders of Short-Term Currency Swaps" (in effect as of September 8, 2000).

September 14

The Board of Governors of the Bank of Latvia adopted the "Regulation for Compiling the 'Quarterly Report on Foreign Investment' " (in effect as of January 1, 2001).

The Board of Governors of the Bank of Latvia adopted the "Regulation for Receiving Bank Time Deposits at the Bank of Latvia" (in effect as of October 1, 2000).

The Board of Governors of the Bank of Latvia adopted amendments to the "Regulation for the Securities Settlement System Organized by the Bank of Latvia".

The Board of Governors of the Bank of Latvia adopted the "Regulation for Credit Transfers" (in effect as of January 1, 2001).

September 21

The Executive Board of the Bank of Latvia adopted the new version of the "Regulation for Buying and Selling Non-Cash Foreign Currency" (in effect as of October 16, 2000).

November 16

The Board of Governors of the Bank of Latvia reduced the reserve requirement for credit institutions by 1.0 percentage points (to 6.0%) and the proportion of vault cash in lats to be used for the purposes of complying with the reserve requirement from 50% to 40% (in effect as of December 1, 2000).

The Board of Governors of the Bank of Latvia adopted amendments to its September 17, 1998 Resolution No. 49/4 "On the Regulatory Requirements Governing the Activity of Credit Institutions" (in effect as of December 1, 2000).

SYSTEM OF CREDIT INSTITUTIONS

At the end of the reporting year, there were 39 licensed credit institutions in the Republic of Latvia, comprising 21 banks, 17 credit unions, the Riga Branch of *Merita Bank Plc.*, and the representative office of *Dresdner Bank AG*.

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 Republic of Latvia Enterprise Register and had not started operating.

The Bank issued permits to reorganize 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 reorganization or voluntary liquidation were revoked.

At the end of 2000, the total paid-up share capital of credit institutions amounted to 201.6 million lats (a year-on-year decrease of 3.4%). The reason for this was the registration of the JSC *MeritaNordbanken Latvia* as an undertaking other than a credit institution. The share of foreign investment in banks' paid-up share capital increased, reaching 69.9% at the end of the year. 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 Latvian Government remained the sole owner of the JSC *Latvijas Hipotēku un zemes banka*, and it held 41.75% of share capital in the JSC *Latvijas Krājbanka*.

In 2000, the ongoing positive trends in the development of Latvian banks and credit unions was confirmed by increases in banks' indicators: assets (excluding trust assets) increased by 37.5% (to 2 698.5 million lats), loans by 27.8% and deposits by 44.5%.

The banking sector's profit for 2000 totalled 38.3 million lats. At the end of 2000, credit institutions' equity grew by 18.3%, amounting to 227.9 million lats.

The capital adequacy ratio of the banking sector, which in accordance with the Law "On Credit Institutions" may not fall below 10%, was 14% at the end of the reporting year.

At the end of 2000, the structure of banks' assets was slightly different from that at the end of 1999. The share of claims on credit institutions in the OECD countries increased by 5.1 percentage points (to 24.4% of banks' assets) and that of fixed-interest securities expanded by 3.5 percentage points (to 8.2% of banks' assets), while the share of loans decreased by 3.1 percentage points (to 40.3% of banks' assets).

At the end of 2000, banks' liquid assets (vault cash, claims on the Bank of Latvia and credit institutions, government securities) reached 44.2% of total assets, and this amount was adequate to meet depositors' claims. Of liquid assets, 55.3% was claims on credit institutions in the OECD countries. At the end of 2000, the ratio of banks' liquid assets to current liabilities was 67% (in accordance with the Bank of Latvia's regulations, this ratio may not fall below 30%).

Loans to domestic enterprises and private persons accounted for 82.8% of total loans. The bulk of loans went to trade, manufacturing, and transport, storage and communications (26.3%, 22.6% and 12.6%, respectively).

The maturity profile of the loan portfolio continued to show positive development trends. The share of medium-term loans (1 year to 5 years) increased from 49.5% to 50.7%, as did that of long-term loans (over 5 years), from 15.3% to 22.2%. The share of short-term loans declined from 35.2% to 27.1%.

At the end of 2000, total non-bank deposits received by banks amounted to 1 864.6 million lats, confirming public confidence in the Latvian banking sector. In total deposits, the share of deposits received from domestic private persons increased from 19.2% to 21.2%. The maturity structure of deposits continued to show positive trends. The share of demand deposits declined (from 68.3% to 65.1%), while those of short-term deposits (up to 1 year) and medium-term deposits (1 year to 5 years) increased (from 28.1% to 29.0% and from 2.8% to 5.1%, respectively).

In the reporting year, the assets of credit unions grew by 51.5%; however, they accounted for only 0.04% of credit institutions' total assets.

EXAMINATIONS OF THE ACTIVITY OF CREDIT INSTITUTIONS

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

In view of a substantial increase in loans granted during 2000, 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.

Banks' assets increased, the number of bank customers grew, and banks expanded their services. Hence, the importance of banks' internal control systems, their enhancement and improvement was highlighted to provide for a prudent management of traditional and new risks.

In 2000, the focus was on the analysis of credit institution performance indicators, and the main effort was to detail and expand the process of analysis.

REGULATIONS GOVERNING THE ACTIVITY OF CREDIT INSTITUTIONS

In the reporting year, the Bank of Latvia's Board of Governors adopted a number of banking regulations to continue the harmonization of banking regulations with the requirements of EC banking directives and the Basle Core Principles for Effective Banking Supervision.

In view of the need to implement EC directive 93/6/EEC "On Capital Adequacy of Investment Firms and Credit Institutions", which concerns the capital requirement to cover market risks, the Bank of Latvia's Board of Governors adopted the "Regulation for Calculating Capital Adequacy" (partly in effect as of July 1, 2000, and in full as of January 1, 2001). This was the last directive not implemented in Latvia. The capital requirement with respect to credit risk has been expanded. The Regulation envisages the imposing of capital requirements to cover market risks, including capital requirements with respect to foreign exchange risk, which is inherent in all activities of a credit institution, and position, commodities, settlement and counter-party risks, which are inherent in a credit institution's trading book (to be observed by credit institutions, whose trading book exceeds the estab-

lished limits). The Regulation replaced the "Regulation for Calculating Credit Institution Performance Indicators" of May 17, 1996.

The introduction of capital requirements to cover market risks in the "Regulation for Calculating Capital Adequacy" necessitated the revision and expansion of the "Regulation for Compliance with Restrictions on Exposures" (the new version took effect on July 1, 2000), which included requirements to exposures in a trading book. Pursuant to the Regulation, credit institutions whose trading book does not exceed the established limits have to submit a condensed report on restrictions on 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, where exposures in the banking and trading books are evaluated and stated separately. To derive more information for supervision purposes, a new reporting form, "Report on Exposures Exempt from Restrictions on Exposures", has been introduced.

To achieve full compliance with the Basle Core Principles for Effective Banking Supervision, the "Regulation for Compliance with Liquidity Requirements" was amended (the new version took effect on July 1, 2000). The Regulation details requirements to credit institutions' liquidity management policies.

The Bank of Latvia's 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 a Report on Investments Made by a Credit Institution" of September 17, 1998. The new Regulation lays down procedures for preparing and submitting credit institution investment reports. Likewise, it stipulates that restrictions on investments are not applicable to investments in financial instruments of the trading book. To timely receive information on the movement of investments in the intra-reporting period (reports are to be submitted twice a year), credit institutions are required to inform in writing the Bank of Latvia's Credit Institutions Supervision Department about acquiring a qualifying holding in the share capital of an undertaking, a credit institution, a financial institution or 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", the Bank of Latvia's 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.

In 2000, the Bank of Latvia conducted a 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. Upon the Bank of Latvia's request, the IMF's experts conducted an independent evaluation of the self-assessment. The evaluation confirmed that the information provided in the Bank of Latvia's self-assessment is correct, relevant and adequate.

INTERNATIONAL COOPERATION

INTERNATIONAL FINANCIAL INSTITUTIONS

In 2000 Latvia, as a member country, continued its activity within the IMF, the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation, as well as the European Bank for Reconstruction and Development. The Bank also continued its participation in the Bank for International Settlements.

The Stand-By Arrangement signed between Latvia and the IMF to support the Latvian Government's economic policy was effective also in 2000; however, it was not utilized during the reporting year. Latvia's quota in the IMF totalled 126.8 million XDR at the end of 2000.

COOPERATION WITH FOREIGN CENTRAL BANKS AND TECHNICAL ASSISTANCE

The Bank of Latvia continued the cooperation and exchange of expertise and information with central banks in other countries. In May 2000, the Bank's employees participated in the seventh seminar for central bankers of the Baltic countries in Estonia to discuss issues relating to monetary policy, banking supervision and European integration.

In 2000, the Bank of Latvia started to be represented on the Nordic Baltic Monetary and Financial Committee.

During the reporting year, the Bank of Latvia continued to receive technical assistance from international financial organizations and foreign central banks. The assistance mainly took the form of participation in seminars and courses organized and consultations provided by these institutions.

Within the framework of technical assistance programs, the Bank of Latvia's employees participated in a number of courses held by the IMF Institute and the Joint Vienna Institute, as well as seminars organized by the Federal Reserve System, *Österreichische Nationalbank*, *Banque de France*, the Bank of England, *Banque Nationale Suisse* and *Deutsche Bundesbank*. Cooperation with *Deutsche Bundesbank* continued also in 2000, and the Bank of Latvia consulted *Deutsche Bundesbank* on a number of central banking issues.

The Bank of Latvia also provided technical assistance by extending consultations to the employees of the National Bank of Belarus on issues relating to monetary policy and by participating in the technical assistance program of the World Bank for the National Bank of Georgia. The program envisaged the provision of consultations with respect to personnel management and training.

PREPARATION FOR THE EUROPEAN UNION

In 2000, the Bank of Latvia continued its cooperation with the Latvian Government and governmental institutions to promote Latvia's integration in the EU. The Bank's employees participated in preparing accession negotiations with respect to the Economic and Monetary Union, free movement of capital, freedom to provide services, and statistics.

In the reporting year, the Bank prepared amendments to Latvian laws and regulatory documents as well as improved regulations governing the activities of Latvian credit institutions and payment systems so as to harmonize them with the requirements of EC directives.

In 2000, a regular exchange of information and cooperation with the ECB was continued. The Bank of Latvia Governor and Deputy Governor participated in the Vienna meeting of central bankers from EU applicant countries, which was organized by the ECB. Working contacts between the ECB and the Bank of Latvia were maintained in the field of statistics, payment systems and central banking laws. The Bank's legal adviser received in-service training at the ECB.

In 2000, economic developments in Latvia were influenced by major trends in the global economic environment and world financial markets. Growth in the US economy, rebounding economic activity in Europe, movements in the exchange rate of the single European currency, and interest rate fluctuations in major world economies were the principal events in the international arena. With a view to accession to the European Union, further structural reforms were continued in the Latvian economy, ensuring foreign investors' interest in the country and an increase in direct investment. Latvia's foreign trade continued to rest predominantly on the EU Member States, whose share increased. The current account deficit declined, as increasing exports of services lessened the impact of the foreign trade deficit. Given balanced growth across the principal sectors of the economy, GDP growth in Latvia was more pronounced than on average in Central and Eastern European countries. The interaction of the above factors shaped Latvia's macroeconomic environment. Monetary policy implemented by the Bank of Latvia promoted growth in the Latvian financial sector.

The Bank of Latvia Executive Board conducted the daily activities of the Bank, following the requirements of the Laws "On the Bank of Latvia" and "On Credit Institutions", as well as other laws and regulations in force in the Republic of Latvia, and decisions of the Board of Governors on monetary policy, credit institution supervision and other activities of the Bank. The Executive Board developed draft resolutions for the Bank's Board of Governors to provide for a better organization of the financial market and improved supervision of credit institutions. In the reporting year, the Bank of Latvia Executive Board convened 53 meetings and passed 98 resolutions on credit institution supervision, 31 resolutions on the utilization of monetary policy instruments and 236 resolutions on conducting other day-to-day business of the Bank.

THE BANK OF LATVIA'S FOREIGN EXCHANGE POLICY AND FOREIGN RESERVES

In 2000, the Bank of Latvia did not change its foreign exchange rate policy, retaining the fixing of the lats against the SDR basket of currencies (XDR 1 = LVL 0.7997 since 1994). Fluctuations in the exchange rates of foreign currencies against the lats reflected global foreign exchange market trends.

The Bank's foreign reserves consist of gold, convertible foreign currencies and SDR. Foreign reserves amounted to 563.4 million lats at the end of 2000 (550.6 million lats at the end of 1999).

The Bank of Latvia's foreign reserves are managed in compliance with the guidelines adopted by the Bank's Board of Governors, and are invested in safe and liquid financial instruments, predominantly in government and government agency securities of the United States, Germany, France, the United Kingdom and Japan, as well as in securities of international institutions. The Bank also introduced new financial instruments. Pursuant to the guidelines, the Bank's foreign reserves were invested in high quality debt securities issued by credit institutions and companies, in asset-backed securities and revocable bonds, and interest rate future contracts.

The Bank's gold reserves were invested as short-term deposits at foreign credit institutions with a high credit rating. Since October 1994, the Bank of Latvia has been employing three fund managers in London and New York. The fund managers operate in compliance with the guidelines established by the Bank of Latvia Board of Governors.

THE BANK OF LATVIA'S MONETARY POLICY INSTRUMENTS

The Bank of Latvia used monetary policy instruments in accordance with market economy principles, approximating the practice of the European System of Central Banks. The Bank made amendments to its regulations to ensure that regulations providing for monetary policy operations are conceptually compatible and that settlement principles are harmonized with EC Directive 98/26/EC "On Settlement Finality in Payment and Securities Settlement Systems".

As of March 17, 2000, the Bank of Latvia lowered the refinancing rate, which serves as a reference rate for the entire Latvian financial system (from 4.0% to 3.5%), because the country had overcome the consequences of the Russian financial crisis and inflation followed a downward trend. The Bank's Board of Governors passed a number of decisions with the aim of lowering interest rates, providing for the attraction of long-term funds and promoting the market for long-term financial instruments. As of March 17, the Bank of Latvia decreased the Lombard rates and interest rates on bank deposits with the Bank by 0.5 percentage points. Until the end of the reporting year, the Lombard rate remained at 5.5% per year for the first ten days of credit utilization, 6.5% per year as from the eleventh to the twentieth day of credit utilization, and 7.5% per year as from the twenty-first day of credit utilization. The following interest rates were established for bank deposits with the Bank of Latvia: 1.5% for 7-day deposits and 1.75% for 14-day deposits.

During the year, the Bank of Latvia issued loans to the banking sector in the amount of 321.8 million lats (less than in 1999); and such loans as at the end of a year declined from 63.3 million lats in 1999 to 42.5 million lats in 2000. Such trend was determined by a considerably lower demand for Lombard loans. At the same time, loans under repurchase agreements granted during the year increased by 8.9%. Loans under repurchase agreements and Lombard loans were granted against collateral of government securities. As of September 29, 2000, securities issued by the private sector were also in use as collateral in refinancing operations, provided the issuer of such securities had been accorded a credit rating not below the rating assigned to Latvia with regard to long-term liabilities in lats, and included in the list of securities approved by the Chairman of the Bank of Latvia Executive Board.

To fine-tune the money supply, the Bank of Latvia held two tenders of reverse repurchase agreements: the first at the end of June and the second at the beginning of July. Government securities in the amount of 31.4 million lats were sold to banks under reverse repurchase agreements (maturity of 7 days; the weighted average interest rate of 5.0%). In the reporting year, the Bank of Latvia accepted banks' time deposits with maturity of 7 and 14 days (110.5 million lats and 119.2 million lats, respectively) at the weighted average interest rate of 1.7%.

To support the banking sector's liquidity, the Bank of Latvia increasingly used currency swap tenders. Currency swap arrangements, under which banks could obtain funds in lats without entering into foreign exchange operations and with lower exchange risk, were offered three times a week, with maturity of 7-, 28-, 91- and 182-days. (As of September 11, short-term currency swaps were denominated not only in US dollars, but also in euros. The latter is increasingly used for settlement.) In March 2000, the Bank of Latvia Board of Governors decided to introduce 2-year currency swap arrangements denominated in all SDR basket currencies. (The first tender of long-term currency swaps was held on May 2.) In the reporting year, lats granted under short-term currency swap arrangements amounted to 319.5 million lats (a year-on-year increase of 34.6%) and in long-term currency

swaps to 50.8 million lats. In 2000, the weighted average interest rate was 4.8% on short-term currency swaps (6.7% in 1999) and 6.5% on long-term currency swaps.

In January–November 2000, the reserve requirement was 7% of the average funds received by a bank or a branch of a foreign bank licensed in Latvia (irrespective of currency and maturity, and excluding liabilities to credit institutions, the State budget and funds received by foreign branches of Latvian banks). To gradually reach the ECB level, the Bank of Latvia reduced the reserve requirement for credit institutions by 1.0 percentage point as of December 1, 2000.

The reserve requirement was met with balances on accounts of credit institutions with the Bank of Latvia and average vault cash balances in lats (the cash component was not to exceed 50%; 40% as of December 1). The cash component of the required reserves decreased to 33.6% in December 2000 (38.7% in December 1999).

To implement its monetary policy, the Bank of Latvia increased its activity in the secondary market for government securities. In 2000, the Bank's transactions on this market totalled 125.9 million lats (an increase of 4.0 times over the 1999 level), of which the bulk was buying transactions (104.2 million lats). Compared with the end of 1999, the Bank's portfolio of government securities increased 1.6 times (to 49.6 million lats). The Government deposited funds as demand and time deposits with the Bank of Latvia.

The Bank of Latvia continued to calculate two money market indexes: RIGIBID and RIGIBOR. The indexes were based on money market rates of six banks, which were the most active money market participants.

BALANCE OF PAYMENTS AND FINANCIAL STATISTICS

In accordance with the Agreement "On the Preparation of the National Balance of Payments", concluded between the Central Statistical Bureau of Latvia and the Bank of Latvia in August 1999, the Bank of Latvia compiles and publishes Latvia's balance of payments starting with the data for the first quarter of 2000.

During 2000, work was conducted with regard to methodology in order to improve the quality of information used for the balance of payments purposes. The Bank of Latvia's collaboration with other institutions and enterprises in the Republic of Latvia provided for the widening of balance of payments data sources, which allowed the Bank to derive significant information.

To ensure a wider coverage of statistics on foreign investment, the Bank of Latvia Board of Governors adopted the "Regulation for Compiling the 'Quarterly Report on Foreign Investment' " (in effect as of January 1, 2001).

The Bank of Latvia Board of Governors adopted the new version of the "Regulation for Preparing Information on External Payments of Non-Banks" requiring respondents to submit information on external payments via both domestic and foreign banks as of January 1, 2001. Likewise, the new version of the "List of External Payment Codes LEPC 2.1" (in effect as of January 1, 2001) was adopted by the Bank of Latvia Governor. The major amendment is the introduction of a new code to show an increase or a decrease in a resident's foreign deposit.

As of the beginning of 2000, the Bank received data of the "Report on Credit Institutions' Payment Statistics", as well as of the "Monthly Financial Position Report" and its appendixes electronically. This has improved the quality of statistical data and speeded up the process of compiling data.

With the aim of promoting Latvia's integration in the EU in the field of financial statistics, the Bank of Latvia participated in the meetings of working groups and seminars organized by the ECB and the Eurostat. In 2000, the ECB put forward the task of harmonizing the methodology for banking and money statistics in all accession countries. Therefore, the ECB reviewed banking and money statistics methodologies used in accession countries, assessed their compliance with EU requirements and drafted the *Manual on the Current Definition and Structure of Money and Banking Statistics in the Accession Countries*, which is structured so as to contain a chapter on each accession country, also Latvia.

In accordance with the requirements of the IMF's Dissemination Standards Bulletin Board, the Bank of Latvia publishes monthly data on international reserves and foreign currency liquidity (as of April 2000) and Latvia's balance of payments and international investment position (as of the first quarter of 2000) at the Bank's Internet site.

In 2000, the Bank of Latvia disseminated financial and balance of payments statistics through its regular publications and the Bank's Internet site, as well as the IMF's Dissemination Standards Bulletin Board, the IMF's publication *International Financial Statistics*, the Bank for International Settlements and the Eurostat.

SETTLEMENT AND PAYMENT SYSTEMS

One of the key tasks of the central bank is to promote efficient and sound operation of payment systems. With a view to this task, the Bank conducts the oversight of the country's payment system, ensuring the functioning of interbank settlement systems, developing regulations with regard to payment systems, compiling payment statistics and participating in projects for enhancing payment systems.

The Bank of Latvia has successfully completed the project on the real time gross settlement system. On September 8, 2000, the Bank launched the Automated Interbank Payment System (SAMS), which replaced the previous Interbank Electronic Gross Settlement System (EFTS). All banks and branches of foreign banks registered in the Republic of Latvia are SAMS participants.

The SAMS is the largest and the most important project in the area of payment systems undertaken by the Bank of Latvia with the assistance of the EU PHARE program. The SAMS was designed, based on LCSS/CAS software provided by *Logica UK Limited*, and S.W.I.F.T. FIN-COPY service. The SAMS is intended for large-value and urgent payments relating to interbank market transactions and monetary policy operations of the Bank of Latvia. Banks may also execute customer payments in the SAMS. Real-time interbank transfers among banks in this system mitigate financial risks pertinent to settlements. Given the possibility of monitoring the balance on a settlement account at the Bank of Latvia and tracing each settlement operation in real time, banks can better estimate cash flows and manage liquidity. With the introduction of the SAMS, the Bank of Latvia interbank payment systems are fully compliant with EU requirements with regard to payment systems. The SAMS is designed so as to comply with the technical requirements to the Trans-European Automated Real-Time Gross Settlement Express Transfer System TARGET and to be able to join the TARGET.

In 2000, the EFTS and the SAMS processed 0.1 million interbank payment instructions. Their total value increased by 12.9% compared with 1999, reaching 15.2 billion lats.

The Bank of Latvia also ensured the operation of the Electronic Clearing System

(EKS). The EKS is an automated net settlement system, and is used for processing retail payments. The EKS is an ACH (Automated Clearing House) system, which processes bulk payments. In 2000, the EKS processed 12.4 million payments (a year-on-year increase of 79.9%). The total value of payment instructions increased by 45.0%, amounting to 6.7 billion lats. This had two main reasons: the share of non-cash settlements in enterprises' transactions expanded and wages and salaries were increasingly paid via accounts at banks.

In 2000, the Bank of Latvia's interbank payment systems processed 12.5 million payment instructions (a year-on-year increase of 78.7%), whose total value was 21.9 billion lats (a year-on-year increase of 21.1%).

The introduction of the SAMS necessitated the adoption of a new version of the "Regulation for Interbank Settlements Effected by the Bank of Latvia". To fully implement EC Directive 97/5/EC "On Cross-Boarder Credit Transfers", the Bank of Latvia amended the "Regulation for Credit Transfers", establishing a procedure for effecting funds transfers up to the equivalent of 50 thousand euros and which are effected by banks in Latvia or banks in Latvia and the European Economic Area. In 2000, a number of Bank of Latvia regulations with regard to the operation of interbank and securities settlement systems were amended to incorporate requirements of EC Directive 98/26/EC "On Settlement Finality in Payment and Securities Settlement Systems".

In 2000, the assessment of the Bank of Latvia's payment systems against international standards was started, including the compliance of the SAMS and the EKS with the standards established by the BIS. The Bank of Latvia's employees, in collaboration with central bankers from the Nordic countries and the Baltic States, participated in elaborating the BIS document *Core Principles for Systematically Important Payment Systems*. As a result, a joint opinion on the principles included in the document was expressed. The document sets out ten core principles whose adoption will help to ensure the soundness and efficiency of payment systems and four key responsibilities for central banks in applying the above principles.

INFORMATION SYSTEMS

In 2000, the major project in the field of information systems was the implementation of the SAMS, a real-time gross settlement system, as well as the integration of the SAMS into the Bank's information systems environment.

In 2000, the information systems for compiling the balance of payments, for the primary market of government securities and for tenders of repurchase agreements were enhanced significantly to provide for a higher level of automation and security.

The Bank's disaster recovery site has been enhanced, and at present all most significant Bank's information systems are mirrored in real time. The procedures for restoring the functioning of the Bank's principal information systems in a disaster recovery site in an emergency situation have been worked out and tested.

At the beginning of 2000, the Bank's Governor resolved to establish the Committee for Managing the Bank of Latvia's Information Systems. The Committee's responsibilities include the drafting of a strategic development plan for the Bank's information systems, oversight of the execution of the plan, working on improvements to the plan, oversight of projects with regard to the principal Bank's information systems, drafting of relevant regulations and oversight of their introduction, review and adoption of the Information Systems Department's working plans and oversight of their execution, and other issues related to information systems.

In November 2000, the Bank of Latvia Board of Governors approved the "Strategic Plan for the Development of the Bank of Latvia's Information Systems", which sets forth guidelines for the development of the Bank of Latvia's information systems for the nearest three years. In 2000, a number of regulations were worked out and adopted with regard to procedures governing creation and usage of information systems: the "Regulation for the Security of the Bank of Latvia's Information Systems", "Regulation for Using the Bank of Latvia's Information System Resources", "Regulation for Registering Users and Assigning Users Rights in the Bank of Latvia's Computer Network and Information Systems" and "Regulation for Designing and Maintaining the Bank of Latvia's Information Systems".

INFORMATION TO THE PUBLIC

The Bank of Latvia disseminated information on its activities and financial statistics to support public trust in the national currency of Latvia, the banking system and operation of the payment system. In 2000, as in previous years, communication with the general public was built on the Bank's publications and information disseminated via mass media.

The Bank of Latvia's activity and financial results for 1999 were reflected in the annual report published in 2000. The Bank of Latvia issued a number of regular publications (*Monetary Bulletin* and *Monetary Review*), which reflect the dynamics of monetary and economic indicators, and the bulletin *Averss un Reverss*, which informs about the resolutions of the Bank's Board of Governors and Executive Board and discusses economic developments in Latvia and abroad.

In 2000, the Bank of Latvia's Credit Institutions Supervision Department issued its first annual report, which complemented the information included in the Bank of Latvia's annual report. The publication introduces the Credit Institutions Supervision Department, highlights trends in the development of credit institutions, and reports changes in Latvian banking laws and regulations.

Starting with the data for the first quarter of 2000, the Bank has taken over the publishing of the bulletin *Latvia's Balance of Payments* from the Central Statistical Bureau of Latvia. Likewise, the Bank issued a number of publications to assist data providers.

The Bank of Latvia issued a publication on the occasion of the Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development, which took place in Riga in May 2000. The publication included information on macroeconomic and fiscal developments in Latvia. The Bank participated in the creation of the exhibition *Coins and Notes in Latvia*, which was organized by the Latvian History Museum, and issuing of the catalogue for the exhibition. Information on the Bank of Latvia's coins and notes as well as the Bank's activities was available in specialized publications (the booklet *Monētas. Coins*, and informative leaflets and booklets).

All the Bank of Latvia's publications are available on the Bank's Internet site (<http://www.bank.lv>), which is continually updated and expanded. Information published on the Bank's site covers a wide variety of issues relating to the Bank of Latvia, laws and regulations that govern the areas of the Bank's activity, Latvian notes and coins, payment and settlement systems, financial statistics.

Press conferences, during which the Bank of Latvia Governor and the Chairman of the Executive Board shared information on economic developments and the banking sector, were held on a regular basis.

Press releases covered information about resolutions passed by the Bank's Board of Governors and Executive Board and the Bank's activities. Publications by the Bank's employees appeared in Latvian and foreign newspapers and journals. Official exchange rates quoted and regulations worked out by the Bank as well as other official information were disseminated in the official newspaper *Latvijas Vēstnesis*.

At the beginning of 2000, work on an interactive means for studies, the multi-medial CD *Money and Financial Institutions*, was completed. All higher and professional educational institutions, secondary schools, regional centres of the educational system, regional and central libraries received the CD. The Bank's employees lectured on the monetary and banking systems and topical financial issues to students and teachers of economics.

The Bank of Latvia participated in creating the TV broadcast *Kā bankā* (As in a Bank), which reflects activities of banks and financial developments in Latvia and abroad, and furnishes information that helps to resolve various finance-related problems. Selected episodes from the broadcast (1997–2000) were compiled to create a study aid in economics for secondary schools.

The latest financial information was transmitted over the radio in the broadcast *Lata spoguļi* (In the Lats' Mirror).

QUALITY MANAGEMENT AT THE BANK OF LATVIA

The Bank of Latvia's functions have gradually expanded, as have the scope of work and the number of employees. To minimise risks inherent in central banking, in May 1999 a special working group for introducing and maintaining the Bank of Latvia's quality management system was established. This project involved 16 Bank's Departments. The Bank's quality management system, which consists of over 100 procedures, was tailored in cooperation with *Zygon Baltic Consulting* to suit the structure of the Bank's management. The system, easy to modify and use, is maintained on the Bank's local network and can be accessed by all employees.

In January 2000, the first internal audit of the Bank's quality management system was conducted by 26 specially trained Bank's employees and this allowed the Bank to prepare for the certification audit. On May 18, 2000, *Bureau Veritas Latvia* assigned the Bank of Latvia ISO 9002 certification, confirming the Bank's ability to conduct its functions in the field of monetary policy, foreign exchange operations, credit institution supervision, money circulation and organisation of payments.

In October 2000, an internal audit of the Bank's quality management system was repeated. No serious deficiencies were detected during the first audit after the certification, conducted on December 6 by *Bureau Veritas Latvia*.

The quality management and quality assurance standard ISO 9000:2000 was adopted at the end of 2000, and this means that in three years conformity with the new version has to be achieved and subsequently a repeated audit has to be conducted.

MONEY CIRCULATION

In 2000, the Bank of Latvia repeated the issue of the 2-santims coin, and with a view to promoting the security of cash transactions, introduced the 10-lats note with enhanced security features and prepared the issue of a new 5-lats note (in circulation as of February 2001).

In 2000, currency in circulation increased by 13.2% (from 426.1 million lats to 482.3 million lats). During a period of five years, the indicator has grown 1.7 times.

Banknotes and coins received from the banking system were checked for authenticity and fitness for circulation by using automated cash processing machines. In 2000, as in the previous year, the amount of processed cash (605.4 million lats) exceeded that of currency in circulation 1.3 times. Of this amount, 114.5 million lats or 18.9% was withdrawn from circulation. Counterfeit banknotes and coins totalled 14.3 thousand lats or only 0.003% (0.002% in 1999) of currency in circulation.

In 2000, within the framework of three international coin programs, the Bank of Latvia issued three commemorative coins. The 1-lats silver coin *Track Cycling* (in circulation as of February 3, 2000) commemorates the Year 2000 Sydney Olympic Games. The 1-lats silver coin *Ventspils* (in circulation as of July 21, 2000), which is part of the series *Hansa Cities* organized by the Mint of Finland. The Bank of Latvia also participated in the UNICEF program *For the Children of the World* by issuing a 1-lats silver coin (in circulation as of December 28, 2000). In 2000, 9 100 commemorative coins were sold in Latvia, and 9 700 coins, outside Latvia.

MANAGEMENT OF THE BANK OF LATVIA'S BUDGET

The budget and plan for capital expenditure of the Bank of Latvia are prepared, approved and implemented in accordance with the procedures adopted by the Bank's Board of Governors.

In the reporting year, the Bank incurred expenses and performed long-term investments in accordance with the budget and plan for capital expenditure of the Bank of Latvia approved by the Board of Governors.

In the process of preparing the Bank of Latvia's budget and plan for capital expenditure, the Executive Board reviewed the draft projects with respect to income, expenses and long-term investments, submitted by the Bank's organizational units, resolved on incorporating the above projects in the draft budget and plan for capital expenditure of the Bank of Latvia. The accepted draft budget and plan for capital expenditure of the Bank of Latvia with the accompanying notes were forwarded to the Bank's Budgetary Commission.

The Budgetary Commission reviewed the draft budget and plan for capital expenditure of the Bank of Latvia with the accompanying notes, received explanations from the Bank's Executive Board and some of the heads of organizational units, and expressed its opinion to the Bank's Board of Governors. Having reviewed the Budgetary Commission's opinion, the Board of Governors adopted the budget and plan for capital expenditure of the Bank of Latvia.

In the reporting year, the Bank of Latvia Executive Board ensured that expenses are incurred and long-term investments made in accordance with the procedures established with regard to the budget and plan for capital expenditure. Likewise, the Executive Board reported regularly to the Board of Governors and the Budgetary Commission about the execution of the budget and plan for capital expenditure of the Bank of Latvia.

FINANCIAL RESULTS OF THE BANK OF LATVIA

In 2000, the Bank of Latvia's net interest income amounted to 29 762 thousand lats. The Bank's interest income was earned mainly by investing gold and con-

vertible foreign currency reserves in secure and liquid financial instruments and conducting transactions in the market for Latvian government securities and the money market. Interest on government deposits accounted for the bulk of the Bank's interest expense. In 2000, the Bank of Latvia's profit amounted to 11 160 thousand lats.

THE BANK OF LATVIA'S ORGANIZATIONAL STRUCTURE

The composition of the Board of Governors at the end of 2000 was as follows:

- Governor, Chairman of the Board of Governors **Einars Repše;**
- Deputy Governor **Ilmārs Rimšēvičs;**
- members of the Board of Governors **Harry Bush,
Valentīna Kolotova,
Arvils Sautiņš,
Vita Pilsuma,
Varis Zariņš,
Valentīna Zeile.**

The Executive Board at the end of 2000 was as follows:

- Chairman of the Executive Board **Ilmārs Rimšēvičs;**
- Deputy Chairperson of the Executive Board **Māra Raubiško;**
- members of the Executive Board **Helmūts Ancāns,
Roberts L. Grava,
Reinis Jakovļevs,
Antonija Sileniece.**

At the end of 2000, 739 persons were employed by the Bank of Latvia (708 at the end of 1999).

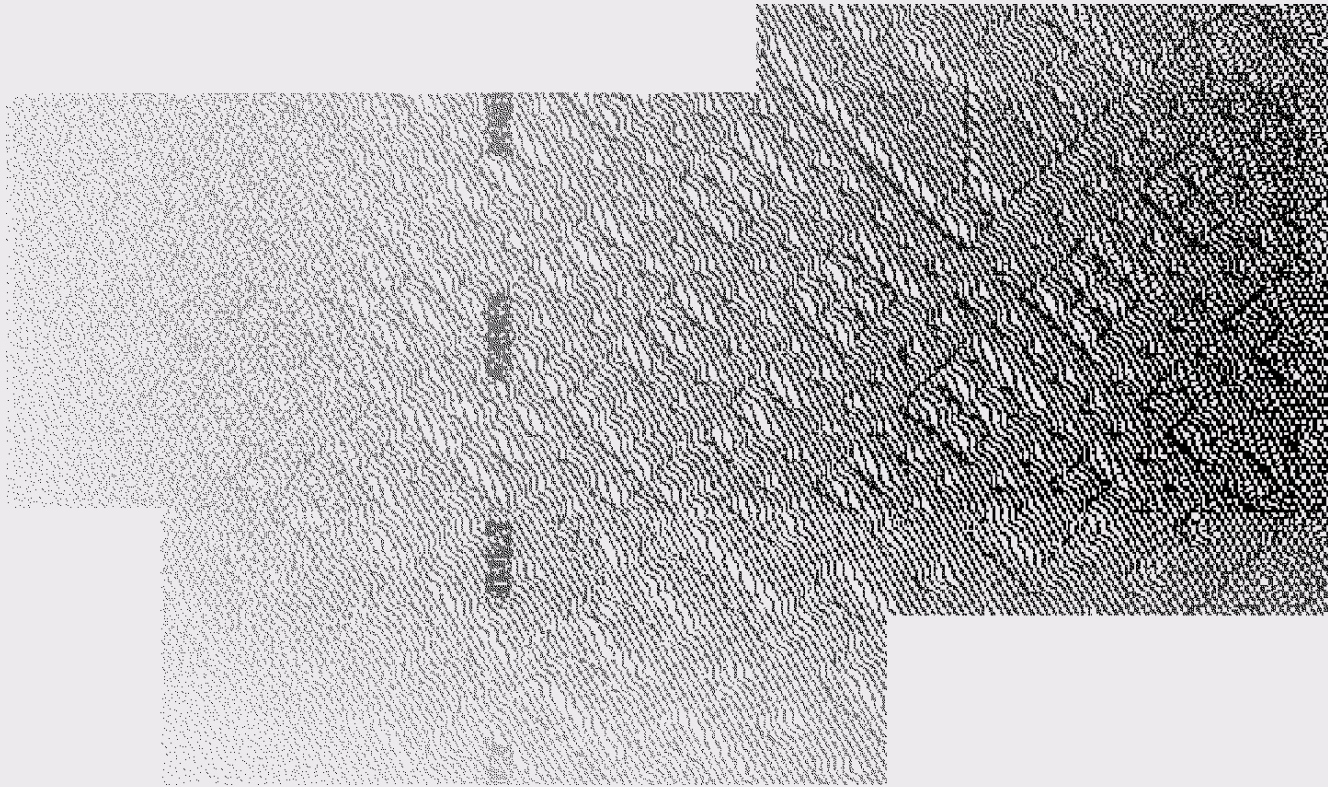
In the reporting year, the Bank of Latvia started introducing a project on the Bank's integrated information systems, which necessitated organizational changes in the Information Systems Department. To start the compilation of the balance of payments at the Bank of Latvia, the organization of the Statistics Department was further developed.

PERSONNEL TRAINING

In the reporting year, employees of the Bank of Latvia participated in seminars, courses and conferences in Latvia and abroad to improve expertise and follow the latest developments in monetary policy, techniques of macroeconomic and monetary analyses, foreign exchange transactions, credit institutions supervision and bank accounting.

In the reporting year, 90 employees upgraded their knowledge of English and French, 84 employees improved their computer skills, and 114 employees advanced their skills in personnel management, communication psychology and efficient work organization. 65 employees broadened their understanding of EU-related issues. Special seminars were organized for recently hired employees to inform them about the Bank's tasks and their fulfilment.

**THE BANK OF LATVIA'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000**



THE BANK OF LATVIA'S BALANCE SHEET

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BANK OF LATVIA. ANNUAL REPORT 2000

(at the end of the year; in thousands of lats)

ASSETS	Notes ¹	2000	1999
FOREIGN ASSETS		669 551	656 304
Gold	4	41 917	42 215
Special Drawing Rights		3	1 788
Convertible foreign currencies	5	521 512	506 582
International Monetary Fund	6	101 144	101 144
Shares in the Bank for International Settlements	7	983	988
Non-convertible currencies		–	276
Other foreign assets	8	3 992	3 311
DOMESTIC ASSETS		142 930	165 104
Loans to credit institutions	9	42 530	63 322
Transit credits	10	23 835	50 110
Government securities	11	49 639	30 156
Investment in associate	12	–	4 726
Fixed assets	13	22 657	15 117
Other domestic assets	14	4 269	1 673 ²
TOTAL ASSETS		812 481	821 408

¹ The accompanying notes set out on pages 46 to 67 are an integral part of these financial statements.

² Restated to include intangible assets of 518 thousand lats that were included in the caption "Fixed assets" in the financial statements for the year ended December 31, 1999.

(cont.)	(at the end of the year; in thousands of lats)		
LIABILITIES, CAPITAL AND RESERVES	Notes	2000	1999
FOREIGN LIABILITIES		129 053	134 653
International Monetary Fund	15	122 014	128 699
Foreign bank deposits in lats		158	321
Non-convertible currencies		42	42
Other foreign liabilities	16	6 839	5 591
LATS IN CIRCULATION	17	482 314	426 101
DOMESTIC LIABILITIES		140 723	214 333
Balances due to credit institutions		80 453	95 765
Balances due to the Government		45 926	110 278
Balances due to other financial institutions		3 950	4 341
Other domestic liabilities	18	10 394	3 949
CAPITAL AND RESERVES		60 391	46 321
Nominal capital	19	4 750	4 750
Reserve capital	19	3 297	2 181
Other reserves	19	32 497	25 243
Valuation account	20	19 325	13 632
European Union grant		522	515
TOTAL LIABILITIES, CAPITAL AND RESERVES		812 481	821 408
MEMORANDUM ITEMS	25, 26		

THE BANK OF LATVIA'S PROFIT AND LOSS STATEMENT

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BANK OF LATVIA, ANNUAL REPORT 2000

	(in thousands of lats)	
Notes	2000	1999
INTEREST INCOME		
Foreign operations		
Interest on deposits with foreign credit institutions and other foreign financial institutions	5 001	3 618
Income from securities	23 333	18 384
Dividends on shares in the Bank for International Settlements	125	125
Other income	–	11
GROSS foreign interest income	28 459	22 138
Domestic operations		
Interest on loans to credit institutions	1 721	2 605
Income from transit credits	93	1 664
Income from government securities	3 659	1 742
Other income	23	85
GROSS domestic interest income	5 496	6 096
INTEREST EXPENSE		
Foreign operations		
Interest on deposits	55	33
Other expense	384	367
GROSS foreign interest expense	439	400
Domestic operations		
Interest on credit institutions' deposits	214	526
Interest on government deposits	3 530	4 344
Interest on other financial institutions' deposits	10	–
GROSS domestic interest expense	3 754	4 870
NET INTEREST INCOME	29 762	22 964

(cont.)	(in thousands of lats)		
	Notes	2000	1999
SPECIFIC PROVISIONS	21	290	10 748
LOSS FROM DISPOSAL OF INVESTMENT IN ASSOCIATE	12	2 030	–
OTHER OPERATING INCOME	22	527	3 884
OTHER OPERATING EXPENSE			
Salaries, wages and other personnel costs		7 744	7 515
Social security costs		1 815	1 799
Banknote production and coinage costs		1 468	311
Depreciation charge		1 223	1 424
Renovation and repair costs		566	1 371
Other operating expense	23	3 993	3 680
TOTAL other operating expense		16 809	16 100
PROFIT BEFORE APPROPRIATION		11 160	–
APPROPRIATION OF PROFIT			
Profit appropriated to the State budget		2 790	–
Nominal capital		–	–
Reserve capital		1 116	–
Other reserves		7 254	–

THE BANK OF LATVIA'S STATEMENT OF RECOGNISED GAINS AND LOSSES

		(in thousands of lats)	
		2000	1999
		Notes	
RESULT ON REVALUATION			
Increase/decrease (-) arising from revaluation of gold and shares in the Bank for International Settlements	20	-212	1 618
Increase/decrease (-) in financial instruments' market value	20	8 054	-5 737
Decrease (-) arising from revaluation of assets and liabilities denominated in foreign currency	20	-2 149	-4 113
NET RESULT ON REVALUATION		5 693	-8 232
PROFIT BEFORE APPROPRIATION		11 160	-
TOTAL		16 853	-8 232

THE BANK OF LATVIA'S CASH FLOW STATEMENT

		(in thousands of lats)	
	Notes	2000	1999
Net cash and cash equivalents inflow/outflow (-) arising from operating activities	24 (1)	-2 790	53 035
Investment in associate		-	-15 474
Disposal of investment in associate		2 696	-
Acquisition of fixed assets		-8 785	-7 395
Acquisition of intangible assets		-1 433	-438
Repayment of the credit facility provided by the International Monetary Fund		-6 098	-8 841
Net cash and cash equivalents inflow/outflow (-)	24 (2)	-16 410	20 887

These financial statements, which are set out on pages 40 to 67, were approved by the Bank of Latvia Executive Board on February 22, 2001.

BANK OF LATVIA EXECUTIVE BOARD

Ilmārs Rimšēvičs

Māra Raubiško

Helmūts Ancāns

Roberts L. Grava

Reinis Jakovļevs

Antonija Sileniece

1. FOUNDATION AND PRINCIPAL ACTIVITIES

The Bank of Latvia was established on July 31, 1990. The Bank of Latvia operates under the Law "On the Bank of Latvia" and its primary objectives are as follows:

- implementation of monetary policy;
- facilitation of free competition and stability of the financial system;
- licensing and supervision of credit institutions;
- issue of the national currency, both banknotes and coins;
- organisation and management of the interbank settlement system and promotion of a smooth functioning of the payment system in Latvia;
- compiling and publishing of financial statistics and the country's balance of payments.

2. RISK MANAGEMENT

The main risks associated with the Bank of Latvia's activities are financial and operational risks arising from a range of activities in pursuit of the Bank's primary objectives. The Bank of Latvia has designed and implemented a framework of controls to identify, monitor and manage these risks. The risk management framework has been established by the Bank of Latvia Executive Board under the principles and guidelines established by the Board of Governors of the Bank of Latvia. This framework is continuously upgraded in line with market and operational developments and is subject to review by the Internal Audit Department personnel and external auditors on a regular basis.

FINANCIAL RISKS

Among the most significant financial risks are price (interest rate and exchange risks), credit and liquidity risks. The Bank of Latvia manages these risks in accordance with the "Principles and Guidelines for Investing the Bank of Latvia's Gold and Foreign Reserves" (hereinafter, the Guidelines), as approved by the Board of Governors of the Bank of Latvia.

For the purposes of financial risks management, the Bank of Latvia has established the Investment Committee that develops the investment management strategy, approves the investment tactics and sets detailed limits for financial risks in accordance with the Guidelines. The Investment Committee reviews the investment strategy once a quarter. Once a week, the Investment Committee reviews reports and forecasts by foreign reserves and gold portfolio managers on developments in financial markets and approves the investment management tactics for the following week.

PRICE RISK

Price risk is exposure to losses due to adverse changes in the financial markets (for example, movements in interest rates or exchange rates). The Bank of Latvia manages interest rate risk inherent mainly in foreign assets sensitive to interest rate fluctuations by using modified duration limits. To avoid losses resulting from adverse changes in exchange rates, the Bank of Latvia monitors exchange risks by applying limits to open foreign exchange positions. Every day the Risk Control Division of the Foreign Exchange Department monitors the compliance of the modified duration limits and open foreign exchange positions with the Guidelines and the respective resolutions passed by the Investment Committee.

CREDIT RISK

Credit risk is exposure to losses resulting from a counterparty's default. The Bank of Latvia is exposed to credit risk as a result of investments in foreign debt securities and short-term cash and gold deposits, and short-term lending to domestic credit institutions.

The Bank of Latvia minimises exposure to credit risk related to investments made in foreign debt securities and short-term cash and gold deposits by establishing limits on investments with different credit quality. Credit quality is evaluated on the basis of the ratings set by the international rating agencies *Fitch IBCA*, *Moody's* and *Standard & Poor's*. In order to minimise the Bank's exposure to credit risk associated with its foreign operations, the Risk Control Division of the Foreign Exchange Department is involved in the daily monitoring of the Bank of Latvia's compliance with the Guidelines.

Short-term loans granted to domestic credit institutions are fully secured by collateral of Latvian government debt securities and other liquid assets. The Bank of Latvia's management monitors the adequacy of collateral on a regular basis.

LIQUIDITY RISK

Liquidity risk is associated with inability to meet liabilities timely and efficiently. The Bank of Latvia manages liquidity risk by investing its gold and foreign exchange reserves in liquid debt securities and other financial instruments issued by international institutions, foreign governments, credit institutions and corporate entities.

OPERATIONAL RISK

Operational risk is exposure to losses resulting from unexpected interruption of operation, unauthorised use of information, non-compliance with security requirements, theft of assets, fraud and other circumstances related to inadequate internal controls or external factors. To minimise operational risk inherent in security and information systems, the Bank of Latvia has established the Committee for Managing the Development of the Bank of Latvia's Complex Security Strategy and the Committee for Managing the Bank of Latvia's Information Systems. The Bank of Latvia's management reviews, on a regular basis, the adequacy and availability of resources for ensuring the continuity of the Bank's operations in case of emergency.

To reduce total operational risk, the Bank of Latvia has insured certain key operational risks.

3. PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies adopted by the Bank of Latvia in the preparation of these financial statements is set out below. The respective accounting policies have been applied consistently, unless otherwise stated, throughout the years ended December 31, 2000 and December 31, 1999.

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the historical cost basis of accounting, modified for the revaluation of certain assets and liabilities as referred to in the accompanying notes.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are recorded in lats at the rates of exchange as quoted by the Bank of Latvia for the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rates of exchange set forth by the Bank of Latvia at the end of the year. Gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies are credited or charged directly to the balance sheet caption "Valuation account".

The principal Bank of Latvia exchange rates, used in compiling the balance sheet, are as follows.

	(at the end of the year)	
	2000	1999
XDR	0.7997	0.7997
USD	0.613	0.583
EUR	0.570042	0.587516
GBP	0.917	0.942
JPY	0.00536	0.00569

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

GOLD

Gold reserves are recorded in the balance sheet at their market value. Any surplus or deficit arising from the revaluation of gold reserves is credited or charged to the balance sheet caption "Valuation account".

FINANCIAL INSTRUMENTS DENOMINATED IN FOREIGN CURRENCIES

Financial instruments denominated in foreign currencies are marked to market. Any surplus or deficit arising on valuation is credited or charged to the balance sheet caption "Valuation account". On the disposal of financial instruments, the market value adjustment is transferred from the balance sheet caption "Valuation account" to the profit and loss statement.

The Bank of Latvia enters into commitments involving forward exchange rate contracts, currency and interest rate swap arrangements and interest rate future contracts, which are carried in off-balance-sheet accounts. Subsequent to initial recognition and measurement, financial assets and financial liabilities arising from these derivative financial instruments are revalued on a regular basis and reported

at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

Any surplus or deficit arising from a change in the fair value of forward exchange rate contracts and currency and interest rate swap arrangements is credited or charged to the balance sheet caption "Valuation account". Realised gains and losses arising from a change in the fair value of interest rate future contracts are transferred to the profit and loss statement upon settlement.

In order to offset the effect of exchange risk associated with contracted commitments, the Bank of Latvia establishes a hedging financial instrument portfolio. Gains or losses on the respective hedging instruments are initially recognised in the balance sheet caption "Valuation account". When the hedged commitments result in recognition of an asset, the associated gains or losses on the financial instruments, which are considered to be an effective hedge, are removed from the balance sheet caption "Valuation account" and included in the amount of the corresponding asset.

LOANS TO CREDIT INSTITUTIONS AND THE PROVISIONS FOR LOAN IMPAIRMENT

Loans to credit institutions are recorded in the balance sheet at the outstanding principal, adjusted for specific credit risk provisions for loan impairment.

The Bank of Latvia's management reassesses the quality of loans to credit institutions on a regular basis. As soon as the recovery of an exposure is identified as doubtful, specific credit risk provisions for loan impairment are established to provide for credit losses. These provisions for loan impairment are reported in the profit and loss statement as specific provisions. Loans to credit institutions are maintained in the balance sheet until they are recovered or written off. The outstanding loan balances are written off only after all the necessary legal measures to recover them have been taken and the amount of loss has been finalised.

LATVIAN GOVERNMENT SECURITIES

Latvian government securities held by the Bank of Latvia include Latvian Treasury bills and bonds.

Latvian Treasury bills are stated in the balance sheet at cost adjusted for amortised discount.

Latvian Treasury bonds are stated in the balance sheet at cost adjusted for amortised discount or premium.

The discounts or premiums arising on purchases of Latvian government securities are amortised to interest income on a straight-line basis over the term to maturity. Amortisation period is the period from the securities acquisition date to their redemption. Interest earned on Latvian government bonds is recognised in the profit and loss statement as income on government securities on an accrual basis.

REPURCHASE AGREEMENTS

Repurchase agreements are accounted for as financing transactions. Securities sold under repurchase agreements are retained in the Bank of Latvia's balance sheet, together with other securities that are not involved in these transactions. Funding received from such sales is included in the balance sheet as a liability to the counterparty. Securities purchased under reverse repurchase agreements are

not included in the Bank of Latvia's balance sheet, but the related funding provided to the counterparty is included in the balance sheet as deposits with foreign credit institutions and other financial institutions or loans to domestic credit institutions.

The difference between the sale and repurchase prices of securities is treated as interest income or expense and recognised in the profit and loss statement over the term of the agreement.

INVESTMENT IN ASSOCIATE

In August 1999, the Bank of Latvia established a subsidiary—*Latvijas Bankas bezpeļņas organizācija SLA "Rīgas Komerbankas rehabilitācijas aģentūra"*, in which it held 100 per cent of the share capital. The subsidiary was established for the sole purpose of assisting in the restructuring of a credit institution registered in the Republic of Latvia, the JSC¹ *Rīgas Komerbanka* (the JSC *Pirmā Latvijas Komerbanka* as of October 1999). In October 1999, this special purpose subsidiary acquired a 6.6 per cent investment in the shares of the above credit institution. This investment carried effective voting rights of 37 per cent and therefore enabled the Bank of Latvia to exercise temporarily, through the subsidiary company, significant influence but not control over the operations of that credit institution.

As the subsidiary did not conduct any other activities, the Bank of Latvia has taken the view that it is appropriate to reflect only the underlying investment of its subsidiary in the credit institution in the financial statements for 1999. With a view to the intention to dispose of the investment in the credit institution in 2000, the Bank of Latvia recognised this investment at cost adjusted for a provision for any permanent diminution in value in the financial statements for the year ended December 31, 1999.

Within the framework of restructuring the above credit institution, in May 2000, the Bank of Latvia's subsidiary disposed of its investment in the share capital of the credit institution. As a result, in May 2000, the Bank of Latvia incurred a loss of 2 030 thousand lats. As the subsidiary had achieved the purpose of its establishment, *Latvijas Bankas bezpeļņas organizācija SLA "Rīgas Komerbankas rehabilitācijas aģentūra"* was dissolved in December 2000.

FIXED ASSETS

Fixed assets are recorded at historical cost less accumulated depreciation. If the fair value of a fixed asset is lower than its carrying amount, due to circumstances not considered to be temporary, the fixed asset is written down to its fair value.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and works of art are not depreciated.

The following depreciation rates have been applied on an annual basis.

¹ Joint-stock company.

	(percentage)	
	2000	1999
Buildings	1–3	1–3
Transport vehicles	20	20
Furniture	10	10
Computer equipment	25–33	20
Other electrical office equipment	20	20
Cash processing equipment	20	20
Tools	50	50
Other fixed assets	14–20	14–20

To ensure full agreement between depreciation rates and useful lives of fixed assets, in 2000 the Bank of Latvia's management revised these rates and increased depreciation rates for computer equipment from 20% to 25%–33% per annum. Therefore, the depreciation of fixed assets increased by 289 thousand lats in 2000.

In accordance with generally accepted principles for hedge accounting, construction costs include a result arising from financial instruments designated as hedges of exchange risk associated with the paid for construction works.

Costs associated with the maintenance and repairs of fixed assets are recognised in the profit and loss statement as expense when incurred.

INTANGIBLE ASSETS

Intangible assets include costs related to the acquisition of the rights to use specialised software for bank information systems, adjusted for accrued amortisation. The acquisition costs of such software are amortised over the period of the software use as specified in the relevant agreements; however, this period may not exceed 10 years.

Other costs related to the acquisition of the rights to use software and to software developed by the Bank of Latvia are recognised in the profit and loss statement as expense when incurred.

LATS IN CIRCULATION

Lats banknotes and coins in circulation issued by the Bank of Latvia, except gold circulation coins, are included in the balance sheet caption "Lats in circulation" at their nominal value. The balance sheet caption "Lats in circulation" reports the Bank of Latvia's liabilities to holders of such banknotes and coins.

GOLD CIRCULATION COINS

Gold circulation coins (fineness .999) held in the vault of the Bank of Latvia are included in the balance sheet caption "Other domestic assets", since their nominal value is directly supported by their content of gold. These coins are stated in the balance sheet at the market value of their content of gold.

When gold circulation coins are issued, they are written off the balance sheet caption "Other domestic assets". The respective coins in circulation are not included under the balance sheet caption "Lats in circulation", as their nominal value is directly supported by their content of gold.

CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents are defined as the amounts comprising convertible foreign currency in cash, short-term deposits with foreign credit institutions and other foreign financial institutions less balances due to domestic credit institutions, provided the residual maturity of such deposits and balances due to domestic credit institutions is 90 days or less.

INTEREST INCOME AND EXPENSE RECOGNITION

Interest income and expense arising from investments in securities, loans and deposits are recognised in the profit and loss statement on an accrual basis.

COMMISSIONS AND FEES

Commissions and fees are charged or credited to the profit and loss statement as incurred or earned.

BANKNOTE PRODUCTION AND COINAGE COSTS

Banknote production and coinage costs are charged to the profit and loss statement as incurred.

4. GOLD

At the end of 2000 and 1999, the Bank of Latvia's gold reserves were placed in gold short-term deposits.

Movements in gold reserves during 2000 were as follows.

	Troy ounces	Amount in thousands of lats
As at December 31, 1999	249 259	42 215
Net changes resulting from gold deposits and withdrawals	-595	-99
Surplus arising from revaluation of gold	-	-199
As at December 31, 2000	248 664	41 917

5. CONVERTIBLE FOREIGN CURRENCIES

Convertible foreign currency assets are invested primarily in short-term cash deposits and debt securities of high liquidity.

Interest bearing debt securities include both interest income purchased at the date of acquisition and interest income accrued subsequent to the date of acquisition of the securities (9 435 thousand lats at the end of 2000 and 6 618 thousand lats at the end of 1999).

At the end of the year, the balance sheet caption "Convertible foreign currencies" was comprised of the following assets.

	(in thousands of lats)	
	2000	1999
Debt securities of foreign governments	238 028	226 657
Debt securities of foreign credit institutions	76 818	99 280
Debt securities of foreign corporate entities	126 312	64 736
Other debt securities	30 524	31 391
Short-term deposits with foreign credit institutions and other foreign financial institutions	49 218	81 660
Foreign currency in cash	612	2 858
Total	521 512	506 582

6. INTERNATIONAL MONETARY FUND

The Republic of Latvia's quota in the International Monetary Fund (IMF), secured by promissory notes issued by the Government of Latvia, is recorded as an asset denominated in XDR. The IMF holdings in lats and the Systemic Transformation Facility (STF) granted by the IMF are stated as a liability (see Note 15).

At the end of 2000 and 1999, the Republic of Latvia's quota in the IMF, secured by promissory notes issued by the Government of Latvia, was 126 478 thousand XDR (101 144 thousand lats).

As at December 31, 2000 and 1999, the Republic of Latvia's total quota in the IMF was 126 800 thousand XDR.

7. SHARES IN THE BANK FOR INTERNATIONAL SETTLEMENTS

The Bank of Latvia owns one thousand shares in the Bank for International Settlements (BIS). These shares are denominated in the gold equivalent (5 834 troy ounces).

As a result of changes in gold market value, the value of the shares in the BIS decreased by 5 thousand lats during 2000. As at December 31, 2000, the value of BIS shares owned by the Bank of Latvia was 983 thousand lats (988 thousand lats at the end of 1999).

8. OTHER FOREIGN ASSETS

At the end of the year, other foreign assets consisted of the following items.

	(in thousands of lats)	
	2000	1999
Accrued interest income on deposits with foreign credit institutions and other foreign financial institutions	509	848
Surplus arising from unsettled forward exchange rate contracts and swap arrangements with foreign financial institutions	3 452	2 249
Other foreign assets	31	214
Total	3 992	3 311

9. LOANS TO CREDIT INSTITUTIONS

At the end of the year, credit facilities provided to domestic credit institutions were as follows.

	(in thousands of lats)	
	2000	1999
Loans under repurchase agreements	24 395	52 182
Refinancing credit facilities	18 000	11 000
Credit facilities provided in respect of the European Union grant	135	140
Total	42 530	63 322

10. TRANSIT CREDITS

The Bank of Latvia acts as agent for the Government of the Republic of Latvia for distribution of funds received from various international institutions. These funds are used to support the government investment programmes. As the Bank of Latvia is exposed to foreign exchange risk associated with these funds, both transit credits and related funding are included in the balance sheet. The Bank of Latvia is not exposed to any credit risk arising from transit credits.

11. GOVERNMENT SECURITIES

At the end of the year, the Bank of Latvia held the following Latvian government securities.

	(in thousands of lats)	
	2000	1999
Residual maturity		
Within 3 months	8 014	8 045
3–6 months	10 341	16 924
6–12 months	659	5 187
1–3 years	12 113	–
Over 3 years	18 512	–
Total	49 639	30 156

At the end of 2000, the fair value of Latvian government securities held by the Bank of Latvia was 51 725 thousand lats and exceeded, by 929 thousand lats, the total carrying amount of the securities (50 796 thousand lats; including accrued interest income on Latvian government bonds in the amount of 1 157 thousand lats reported in the balance sheet caption "Other domestic assets"; see Note 14). At the end of 1999, the fair value of Latvian government securities held by the Bank of Latvia was 30 387 thousand lats and exceeded, by 77 thousand lats, the total carrying amount of the securities (30 310 thousand lats; including accrued interest income on Latvian government bonds in the amount of 154 thousand lats reported in the balance sheet caption "Other domestic assets").

12. INVESTMENT IN ASSOCIATE

In May 2000, the Bank of Latvia's 100 per cent owned subsidiary *Latvijas Bankas bezpeļņas organizācija SIA "Rīgas Komerbankas rehabilitācijas aģentūra"* disposed of its 6.6% investment in the shares of the JSC *Pirmā Latvijas Komerbanka* that carried 37% of total voting rights. As a result of the disposal of the above invest-

ment, in 2000 the Bank of Latvia incurred a loss of 2 030 thousand lats, which is included in the profit and loss statement caption "Loss from disposal of investment in associate".

13. FIXED ASSETS

The following changes in fixed assets took place in 2000.

	(in thousands of lats)						
	Construc- tion in progress	Building	Furniture and office equipment	Cash processing equipment	Transport vehicles	Other	Total
As at December 31, 1999							
Cost	8 459	3 615	4 315	1 745	982	1 931	21 047
Accumulated depreciation	–	–301	–2 152	–1 388	–692	–1 397	–5 930
Net book value	8 459	3 314	2 163	357	290	534	15 117
During 2000							
Additions	8 120	–	466	39	68	92	8 785
Disposals	–	–	–184	–	–41	–5	–230
Net change in cost	8 120	–	282	39	27	87	8 555
Depreciation charge	–	–104	–681	–123	–103	–212	–1 223
Depreciation on disposals	–	–	162	–	41	5	208
Net change in accumulated depreciation	–	–104	–519	–123	–62	–207	–1 015
As at December 31, 2000							
Cost	16 579	3 615	4 597	1 784	1 009	2 018	29 602
Accumulated depreciation	–	–405	–2 671	–1 511	–754	–1 604	–6 945
Net book value	16 579	3 210	1 926	273	255	414	22 657

In 2000, the Bank of Latvia's management increased depreciation rates for computer equipment from 20% to 25%–33% per annum. Therefore, the depreciation of fixed assets increased by 289 thousand lats in 2000.

14. OTHER DOMESTIC ASSETS

At the end of the year, other domestic assets consisted of the following items.

	(in thousands of lats)	
	2000	1999
Gold circulation coins in vault	406	416
Accrued interest income on Latvian government bonds	1 157	154
Other accrued interest income	84	283
Surplus arising from unsettled spot exchange rate contracts and currency swap arrangements with domestic credit institutions	227	16
Intangible assets	1 893	518
Other domestic assets	502	286
Total	4 269	1 673

Intangible assets include the rights to use specialised software for bank information systems acquired by the Bank of Latvia. In 2000, the following movements were observed in intangible assets.

	(in thousands of lats)		
	2000	Additions	1999
Cost	2 015	1 433	582
Accumulated amortisation	-122	-58	-64
Net value of intangible assets	1 893	1 375	518

15. INTERNATIONAL MONETARY FUND

At the end of 2000, liabilities to the IMF were comprised of the Systemic Transformation Facility (STF) and IMF holdings in lats (see Note 6).

The credit facility under the STF has been provided to the Republic of Latvia with the aim of supporting the Government's economic and financial programme. The respective facility is scheduled for repayment in instalments until July 2004.

Movements in liabilities to the IMF during 2000 were as follows.

	(in thousands of lats)		
	STF	Holdings in lats	Total
As at December 31, 1999	27 440	101 259	128 699
Decrease (-) in holdings in lats	-	-587	-587
Repayment	-6 098	-	-6 098
As at December 31, 2000	21 342	100 672	122 014

16. OTHER FOREIGN LIABILITIES

At the end of the year, other foreign liabilities consisted of the following items.

	(in thousands of lats)	
	2000	1999
Deficit arising from unsettled spot exchange rate contracts, forward exchange rate contracts and currency swap arrangements with foreign financial institutions	6 121	5 089
Accrued expense	95	102
Other foreign liabilities	623	400
Total	6 839	5 591

17. LATS IN CIRCULATION

At the end of the year, the following units of lats (LVL) and santims (s) were in circulation.

Nominal	Amount (in thousands of lats)		Number (in thousands of units)		Percentage	
	2000	1999	2000	1999	2000	1999
Banknotes						
LVL 500	34 370	20 262	69	41	7.1	4.8
LVL 100	79 480	60 491	795	605	16.5	14.2
LVL 50	56 233	55 501	1 125	1 110	11.7	13.0
LVL 20	157 694	132 331	7 885	6 617	32.7	31.1
LVL 10	82 069	86 598	8 207	8 660	17.0	20.3
LVL 5	48 142	48 375	9 628	9 675	10.0	11.4
Total banknotes	457 988	403 558	–	–	95.0	94.8
Coins						
LVL 100	303	302	3	3	0.1	0.1
LVL 10	136	133	14	13	0	0
LVL 2	6 712	6 196	3 356	3 098	1.4	1.4
LVL 1	7 892	7 137	7 892	7 137	1.6	1.7
50 s	3 797	3 695	7 594	7 390	0.8	0.9
20 s	1 925	1 768	9 625	8 840	0.4	0.4
10 s	1 245	1 182	12 450	11 826	0.3	0.3
5 s	938	870	18 760	17 399	0.2	0.2
2 s	733	666	36 650	33 318	0.1	0.1
1 s	645	594	64 500	59 381	0.1	0.1
Total coins	24 326	22 543	–	–	5.0	5.2
Total lats in circulation	482 314	426 101	–	–	100.0	100.0

In 2000, the Bank of Latvia continued to issue gold circulation coins (fineness .999) with a nominal value of LVL 100. As a result, the total nominal value of such coins in circulation increased from 1 534 thousand lats at the end of 1999 to 1 542 thousand lats at the end of 2000. The respective coins in circulation are not included in the balance sheet caption "Lats in circulation", since their nominal value is directly supported by their content of gold.

18. OTHER DOMESTIC LIABILITIES

At the end of the year, other domestic liabilities consisted of the following items.

	(in thousands of lats)	
	2000	1999
Profit appropriated to the State budget	2 790	–
Deficit arising from unsettled currency swap arrangements with domestic credit institutions	2 512	400
Accrued expenditure on completed construction works	2 278	1 251
Accrued interest expense on government deposits	158	416
Other accrued expense	939	1 015
Deferred liabilities to constructors	449	381
Deferred income	400	–
Tax liabilities	31	47
Other domestic liabilities	837	439
Total	10 394	3 949

19. NOMINAL CAPITAL, RESERVE CAPITAL AND OTHER RESERVES

The Law "On the Bank of Latvia" prescribes the authorised nominal capital of the Bank of Latvia at 25 million lats.

The nominal capital is comprised of the State allotted resources and the Bank of Latvia's profit allocations. 10 per cent of the Bank of Latvia's profit is annually appropriated to the reserve capital, which is established to cover potential losses, until one-fourth of the authorised nominal capital is reached. The Law "On the Bank of Latvia" establishes that part of the Bank of Latvia's annual profit, calculated by applying the tax rate set for residents by the Law "On Enterprise Income Tax", shall be transferred to the State budget. On December 31, 2000, the enterprise income tax rate applicable to residents of the Republic of Latvia was 25 per cent. Other reserves are comprised of net profit after the aforementioned appropriations to the reserve capital and the State budget.

20. VALUATION ACCOUNT

Movements in the valuation account during 2000 were as follows.

	(in thousands of lats)			
	Surplus from revaluation of gold and shares in the BIS	Surplus/deficit (–) from changes in financial instruments' market value	Deficit (–) from revaluation of assets and liabilities in foreign currency	Total
As at December 31, 1999	48 483	–3 963	–30 888	13 632
Increase/decrease (–)	–212	8 054	–2 149	5 693
As at December 31, 2000	48 271	4 091	–33 037	19 325

21. SPECIFIC PROVISIONS

The following specific provisions were made during the year.

	(in thousands of lats)	
	2000	1999
On the investment in associate	–	10 748
On claims arising from settlements with the CIS countries in 1992	290	–
Total	290	10 748

22. OTHER OPERATING INCOME

Other operating income consisted of the following items.

	(in thousands of lats)	
	2000	1999
Release of previously established specific provisions due to recovery of the respective assets	–	3 000
Income from cash and securities settlement services	240	118
Income from the sales of commemorative coins	128	115
Other operating income	159	651
Total	527	3 884

23. OTHER OPERATING EXPENSE

Other operating expense was as follows.

	(in thousands of lats)	
	2000	1999
Maintenance of information systems	474	474
Communications services	397	405
Insurance	365	280
Legal and other fees	358	332
Acquisition of miscellaneous office supplies	354	412
Business travel	342	333
Municipal services and rent of premises	282	263
Personnel training	187	216
Maintenance of transport vehicles	144	144
Transportation of valuables	96	47
Other operating expense	994	774
Total	3 993	3 680

24. CASH FLOW STATEMENT

(1) Reconciliation of profit before appropriation to net cash and cash equivalents inflow or outflow (-) arising from operating activities:

	(in thousands of lats)	
	2000	1999
Profit before appropriation	11 160	-
Depreciation of fixed assets and amortisation of intangible assets	1 281	1 424
Loss on disposal of fixed assets	22	17
Increase in specific provisions	290	7 748
Loss from disposal of investment in associate	2 030	-
Net surplus/deficit (-) arising from revaluation and financial instruments' market value adjustment	5 891	-9 791
Net decrease in gold	99	17
Net increase (-)/decrease in Special Drawing Rights	1 785	-1 623
Net increase (-) in foreign debt securities and other foreign investments	-46 652	-29 870
Net increase (-)/decrease in other foreign assets	-681	2 123
Net increase (-)/decrease in loans to domestic credit institutions	20 792	-8 282
Decrease in transit credits	26 275	4 234
Net increase (-)/decrease in government securities	-19 483	19 260
Net increase (-) in other domestic assets	-1 229	-86
Net increase/decrease (-) in lats deposits of foreign credit institutions	-163	71
Net decrease (-) in IMF holdings in lats	-587	-93
Net increase in other foreign liabilities	1 248	4 528
Net increase in lats in circulation	56 213	51 653
Net increase/decrease (-) in balances due to the Government	-64 352	8 639
Net increase/decrease (-) in balances due to other financial institutions	-391	3 005
Net increase/decrease (-) in other domestic liabilities	3 655	-8
Increase in European Union grant	7	69
Net cash and cash equivalents inflow/outflow (-) arising from operating activities	-2 790	53 035

(2) Analysis of the balances of cash and cash equivalents:

	(in thousands of lats)		
	2000	Change	1999
Convertible foreign currencies in cash	612	-2 246	2 858
Short-term deposits with foreign credit institutions and other foreign financial institutions (residual maturity of 90 days or less)	46 995	-29 476	76 471
Short-term balances due to domestic credit institutions (residual maturity of 90 days or less)	-80 453	15 312	-95 765
Total	-32 846	-16 410	-16 436

25. CONTRACTED CAPITAL COMMITMENTS

At the end of 2000, the Bank of Latvia had contracted capital commitments in the amount of 9 048 thousand lats (16 208 thousand lats at the end of 1999) in respect of building and equipment acquisition.

26. FINANCIAL INSTRUMENTS' OFF-BALANCE SHEET ACCOUNTS

The Bank of Latvia enters into forward exchange rate contracts, spot exchange rate contracts, interest rate swap arrangements and interest rate future contracts in order to manage interest rate and exchange risks associated with the Bank's foreign reserves. As part of its monetary policy, the Bank of Latvia also engages in currency swap arrangements.

At the end of the year, the Bank of Latvia had entered into the following unlisted financial instruments.

	(in thousands of lats)			
	Contract or notional amount		Fair value	
	2000	1999	2000	1999
Exchange rate contracts				
Claims arising from spot exchange rate contracts	6 415	–	6 413	–
Liabilities arising from spot exchange rate contracts	6 361	–	6 358	–
Spot exchange rate contracts (net)	x	x	55	–
Claims arising from forward exchange rate contracts	246 752	232 390	245 871	231 107
Liabilities arising from forward exchange rate contracts	249 357	232 662	248 513	231 471
Forward exchange rate contracts (net)	x	x	–2 642	–364
Claims arising from currency swap arrangements	109 636	84 119	109 960	83 688
Liabilities arising from currency swap arrangements	111 516	87 115	112 328	86 548
Currency swap arrangements (net)	x	x	–2 368	–2 860
Gold interest rate swap arrangements				
Claims arising from gold interest rate swap arrangements	10 788	–	1 005	–
Liabilities arising from gold interest rate swap arrangements	10 788	–	1 004	–
Gold interest rate swap arrangements (net)	x	x	1	–
Total claims	373 591	316 509	363 249	314 795
Total liabilities	378 022	319 777	368 203	318 019
Net position on financial instruments' off-balance-sheet accounts	x	x	–4 954	–3 224

The Bank of Latvia had the following interest rate future contracts outstanding at the end of the year.

	(in thousands of lats)			
	Contract amount		Fair value	
	2000	1999	2000	1999
Interest rate future contracts bought	2 575	1 528	46	–22
Interest rate future contracts sold	30 552	13 105	–28	98

27. CURRENCY PROFILE

At the end of the year, the currency profile of the Bank of Latvia's assets, liabilities and memorandum items was as follows.

	(in thousands of lats)								
	LVL	XDR	USD	EUR	GBP	JPY	Gold	Other	Total
As at December 31, 2000									
Foreign assets									
Gold	-	-	-	-	-	-	41 917	-	41 917
Special Drawing Rights	-	3	-	-	-	-	-	-	3
Convertible foreign currencies	-	-	280 551	169 396	38 174	25 025	-	8 366	521 512
International Monetary Fund	-	101 144	-	-	-	-	-	-	101 144
Shares in the BIS	-	-	-	-	-	-	983	-	983
Other foreign assets	3 452	-	362	150	1	2	-	25	3 992
Domestic assets									
Loans to credit institutions	42 395	-	-	135	-	-	-	-	42 530
Transit credits	-	-	23 619	216	-	-	-	-	23 835
Government securities	49 639	-	-	-	-	-	-	-	49 639
Fixed assets	22 657	-	-	-	-	-	-	-	22 657
Other domestic assets	3 851	-	12	-	-	-	406	-	4 269
TOTAL ASSETS	121 994	101 147	304 544	169 897	38 175	25 027	43 306	8 391	812 481
Foreign liabilities									
International Monetary Fund	100 672	21 342	-	-	-	-	-	-	122 014
Foreign bank deposits in lats	158	-	-	-	-	-	-	-	158
Non-convertible currencies	-	-	-	-	-	-	-	42	42
Other foreign liabilities	6 121	-	701	17	-	-	-	-	6 839
Lats in circulation	482 314	-	-	-	-	-	-	-	482 314
Domestic liabilities									
Balances due to credit institutions	77 759	-	2 601	86	1	-	-	6	80 453
Balances due to the Government	25 527	3	5 126	15 270	-	-	-	-	45 926
Balances due to other financial institutions	3 621	-	303	25	1	-	-	-	3 950
Other domestic liabilities	10 022	-	87	285	-	-	-	-	10 394
TOTAL LIABILITIES	706 194	21 345	8 818	15 683	2	-	-	48	752 090
Net position on balance sheet	-584 200	79 802	295 726	154 214	38 173	25 027	43 306	8 343	60 391
Net position on financial instruments' off-balance-sheet accounts									
	114 909	-	-96 550	-27 390	8 637	40 150	-41 961	-2 749	-4 954
Net position on capital commitments									
	1 513	-	-	7 535	-	-	-	-	9 048
As at December 31, 1999									
TOTAL ASSETS	116 687	102 932	333 670	137 882	45 242	12 937	43 619	28 439	821 408
TOTAL LIABILITIES	657 402	29 222	25 408	63 001	1	-	-	53	775 087
Net position on balance sheet	-540 715	73 710	308 262	74 881	45 241	12 937	43 619	28 386	46 321
Net position on financial instruments' off-balance-sheet accounts									
	60 187	-	-107 829	46 842	1 313	55 934	-42 118	-17 553	-3 224
Net position on capital commitments									
	5 857	-	-	10 351	-	-	-	-	16 208

28. REPRICING MATURITY

(in thousands of lats)

	Interest bearing					Non-interest bearing	Total
	Within 3 months	3–6 months	6–12 months	1–3 years	Over 3 years		
As at December 31, 2000							
Foreign assets							
Gold	10 801	25 722	5 394	–	–	–	41 917
Special Drawing Rights	3	–	–	–	–	–	3
Convertible foreign currencies	107 142	28 583	63 069	203 980	117 833	905	521 512
International Monetary Fund	–	–	–	–	–	101 144	101 144
Shares in the BIS	–	–	–	–	–	983	983
Other foreign assets	–	–	–	–	–	3 992	3 992
Domestic assets							
Loans to credit institutions	42 395	–	–	135	–	–	42 530
Transit credits	–	–	–	–	–	23 835	23 835
Government securities	8 014	10 341	659	12 113	18 512	–	49 639
Fixed assets	–	–	–	–	–	22 657	22 657
Other domestic assets	–	–	–	–	–	4 269	4 269
TOTAL ASSETS	168 355	64 646	69 122	216 228	136 345	157 785	812 481
Foreign liabilities							
International Monetary Fund	–	–	–	–	–	122 014	122 014
Foreign bank deposits in lats	–	–	–	–	–	158	158
Non-convertible currencies	–	–	–	–	–	42	42
Other foreign liabilities	–	–	–	–	–	6 839	6 839
Lats in circulation	–	–	–	–	–	482 314	482 314
Domestic liabilities							
Balances due to credit institutions	2 601	–	–	–	–	77 852	80 453
Balances due to the Government	44 070	912	–	–	–	944	45 926
Balances due to other financial institutions	3 000	–	–	–	–	950	3 950
Other domestic liabilities	–	–	–	–	–	10 394	10 394
TOTAL LIABILITIES	49 671	912	–	–	–	701 507	752 090
Balance sheet interest sensitivity gap	118 684	63 734	69 122	216 228	136 345	x	x
Financial instruments' off-balance-sheet interest sensitivity gap	–3 408	–487	–	–1 041	–	x	x
As at December 31, 1999							
TOTAL ASSETS	305 481	59 320	27 961	195 202	68 297	165 147	821 408
TOTAL LIABILITIES	99 680	2 682	–	–	–	672 725	775 087
Balance sheet interest sensitivity gap	205 801	56 638	27 961	195 202	68 297	x	x
Financial instruments' off-balance-sheet interest sensitivity gap	–2 384	–764	–	–	–	x	x

The table above analyses the sensitivity of the Bank of Latvia's financial position to a change in interest rates. Assets and liabilities reported in this table are stated at carrying amounts, categorised by the earlier of contractual interest re-fixing or maturity dates.

All balances included under the balance sheet caption "Convertible foreign currencies" represent investments of high liquidity, which are subject to disposal at the Bank of Latvia's discretion.

29. SECTORAL PROFILE OF ASSETS

The sectoral profile of the Bank of Latvia's assets at the end of the year was as follows.

	Amount (in thousands of lats)		Percentage	
	2000	1999	2000	1999
Foreign central governments	238 028	226 933	29.3	27.6
Foreign local governments	9 430	1 384	1.2	0.2
Foreign credit institutions	169 684	218 458	20.9	26.6
Foreign corporate entities	126 311	64 736	15.5	7.9
International institutions	126 073	144 768	15.5	17.6
Latvian Government	99 104	133 342	12.2	16.3
Domestic credit institutions	18 141	15 868	2.2	1.9
Others	25 710	15 919	3.2	1.9
Total	812 481	821 408	100.0	100.0

For the purposes of credit risk analysis, in the above table claims arising from securities purchased under reverse repurchase agreements are classified according to the issuer of the security. As a result, claims arising from Latvian government securities purchased under reverse repurchase agreements with domestic credit institutions in the amount of 24 395 thousand lats (52 182 thousand lats at the end of 1999) and the related accrued interest income in the amount of 60 thousand lats (262 thousand lats at the end of 1999) are reported as exposure to the Latvian Government.

30. FOREIGN ASSETS BY THEIR LOCATION OR THE COUNTERPARTY'S DOMICILE

At the end of the year, the Bank of Latvia's foreign assets broken down by their location or the counterparty's domicile were as follows.

	Amount (in thousands of lats)		Percentage	
	2000	1999	2000	1999
European Union	280 533	293 368	41.9	44.7
United States of America	173 111	162 763	25.8	24.8
Japan	49 979	21 658	7.5	3.3
Other countries	39 855	33 747	6.0	5.1
International institutions	126 073	144 768	18.8	22.1
Total	669 551	656 304	100.0	100.0

31. ASSETS BY CREDIT RATINGS SET TO THE COUNTERPARTY

At the end of the year, assets broken down by categories of credit ratings set to the counterparty were as follows.

	Credit rating	Amount (in thousands of lats)		Percentage	
		2000	1999	2000	1999
FOREIGN ASSETS					
Gold	AAA	9 281	9 414	1.1	1.1
	AA+	16 367	27 629	2.0	3.4
	AA	16 269	5 172	2.0	0.6
Special Drawing Rights	AAA	3	1 788	0	0.2
Foreign debt securities	AAA	284 878	250 728	35.1	30.5
	AA+	56 744	45 718	7.0	5.6
	AA	50 523	49 829	6.2	6.1
	AA-	42 517	39 584	5.2	4.8
	A+	23 812	14 478	2.9	1.8
	A	13 208	15 380	1.6	1.9
	A-	-	6 347	-	0.8
Deposits with foreign credit institutions and other foreign financial institutions	AAA	3 132	31 321	0.4	3.8
	AA+	10 319	8 936	1.4	1.1
	AA	22 308	10 026	2.7	1.3
	AA-	7 784	10 804	1.0	1.4
	A+	5 194	20 394	0.6	2.5
	A	481	179	0.1	0
Foreign currency in cash	AAA	602	2 846	0.1	0.3
	Different	10	12	0	0
International Monetary Fund	AAA	101 144	101 144	12.4	12.3
Shares in the BIS	AAA	983	988	0.1	0.1
Non-convertible currencies	-	-	276	-	0
Derivative financial instruments	AAA	1	-	0	-
	AA+	1 315	219	0.2	0
	AA	1 192	1 877	0.1	0.2
	AA-	67	20	0	0
	A+	877	133	0.1	0
Accrued interest income	Different	509	848	0.1	0.1
Other foreign assets	Different	31	214	0	0
DOMESTIC ASSETS					
Loans to credit institutions	Different	42 530	63 322	5.3	7.7
Transit credits	BBB ¹	23 835	50 110	2.9	6.1
Government securities	A-	49 639	30 156	6.1	3.7
Other domestic assets	-	26 926	21 516	3.3	2.6
TOTAL		812 481	821 408	100.0	100.0

¹ The Bank of Latvia is not exposed to any credit risk arising from transit credits (see Note 10).

At the end of the year, the Bank of Latvia's foreign assets broken down by major categories of credit ratings set to the counterparty were as follows.

	Credit rating	Amount (in thousands of lats)		Percentage	
		2000	1999	2000	1999
Foreign assets	AAA	400 024	398 229	59.7	60.7
	AA	225 405	199 814	33.7	30.4
	A	43 572	56 911	6.5	8.7
	Different	550	1 074	0.1	0.2
	-	-	276	-	0
Total		669 551	656 304	100.0	100.0

Based on *Standard & Poor's* credit ratings or other equal credit ratings set by other international credit rating agency to the counterparty, the above tables show the breakdown of the Bank of Latvia's assets as at the end of the year. The rating "AAA" is the highest possible long-term creditworthiness rating, which indicates to an extremely strong capacity of the counterparty to meet its contractual liabilities. The rating "AA" confirms the counterparty's very strong capacity and the rating "A" the counterparty's strong capacity to meet its contractual liabilities. Ratings below "AAA" are modified by marks "+" or "-" to show the relative standing within the major categories of an agency's ratings.

REPORT OF THE AUDIT COMMISSION TO THE BANK OF LATVIA BOARD OF GOVERNORS

We have audited the balance sheet of the Bank of Latvia as at 31 December 2000, and the related statements of profit and loss, recognised gains and losses, and cash flows for the year then ended (hereinafter, the financial statements). These financial statements, which are set out on pages 40 to 67, are the responsibility of the Bank of Latvia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Bank of Latvia for the year ended 31 December 1999 were audited by an audit commission, which consisted of representatives of another independent audit firm and the State Audit Office of the Republic of Latvia. The audit commission's report dated 9 March 2000 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank of Latvia as at 31 December 2000, and the results of its operations and its cash flows for the year then ended in conformity with the accounting principles adopted by the Bank of Latvia and the Law "On the Bank of Latvia".

ARTHUR ANDERSEN

THE STATE AUDIT OFFICE
OF THE REPUBLIC OF LATVIA

Riga
22 February 2001

RESOLUTION OF THE BANK OF LATVIA BOARD OF GOVERNORS

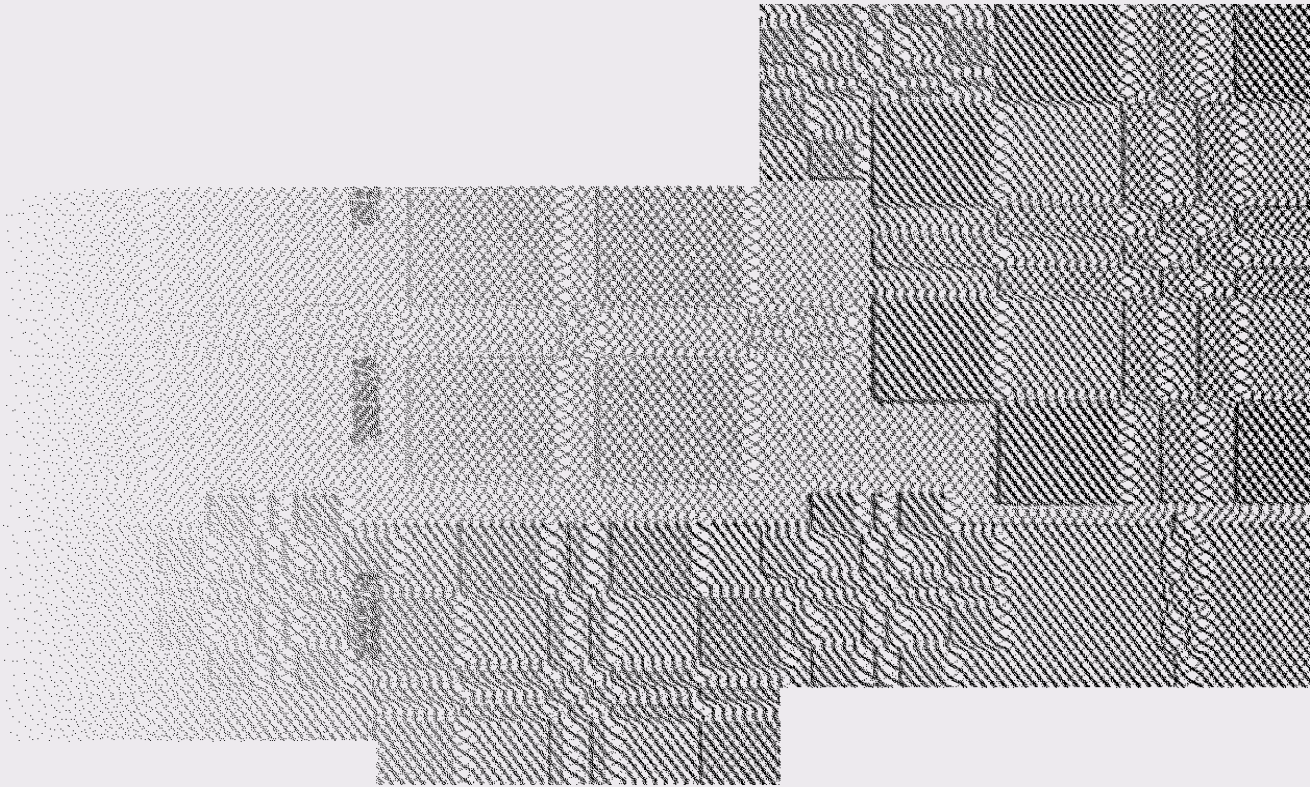
On March 28, 2001, the Bank of Latvia's Board of Governors passed Resolution No. 85/1 "On the Bank of Latvia's Annual Report for 2000".

Having reviewed the results of the audit of the Bank of Latvia's economic activity in 2000, the Bank of Latvia's Board of Governors resolves:

1. To approve the Bank of Latvia's annual report for 2000, including the balance sheet, profit and loss statement, statement of recognised gains and losses and cash flow statement.
2. To appropriate the Bank of Latvia's profit for 2000 in the following way.
 - 2.1. 2 790 thousand lats to be transferred to the state revenue.
 - 2.2. 1 116 thousand lats to be transferred to the Bank's reserve capital.
 - 2.2. 7 254 thousand lats to be transferred to the Bank's other reserves.

EINARS REPŠE
GOVERNOR
BANK OF LATVIA

APPENDIXES



MONETARY INDICATORS IN 2000

(at end of month; in millions of lats)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
BANK OF LATVIA												
Monetary base M0	471.8	471.0	482.6	504.7	516.2	491.4	557.6	544.8	534.2	565.7	565.3	566.7
Currency in circulation	409.1	412.1	411.1	419.8	425.3	442.1	449.2	448.1	452.9	455.3	461.7	482.3
Deposits with the Bank of Latvia	62.7	58.9	71.6	84.8	90.9	49.3	108.4	96.8	81.3	110.4	103.6	84.4
Currency vs monetary base (%)	86.7	87.5	85.2	83.2	82.4	90.0	80.6	82.3	84.8	80.5	81.7	85.1
Net foreign assets	512.1	500.1	526.8	533.8	508.1	519.5	560.0	545.1	522.9	560.9	558.9	540.5
Net domestic assets	-40.3	-29.1	-44.1	-29.1	8.2	-28.1	-2.4	-0.3	11.4	4.8	6.4	26.2
Credits	19.1	31.2	-7.5	6.6	45.8	25.8	36.9	39.7	45.6	40.9	46.4	70.1
To banks	50.1	32.4	47.4	38.1	45.1	42.9	38.8	42.6	44.3	33.3	30.9	42.5
To the Government (net)	-31.0	-1.2	-55.0	-31.5	0.7	-17.1	-1.8	-2.9	1.3	7.6	15.5	27.5
Other items (net)	-59.5	-60.3	-36.6	-35.7	-37.6	-53.9	-39.4	-39.9	-34.3	-36.1	-40.0	-43.9
BANKING SYSTEM												
Broad money M2X	997.1	1 017.7	1 070.7	1 085.5	1 119.4	1 137.9	1 164.1	1 180.7	1 203.6	1 226.0	1 240.7	1 275.9
Currency outside banks	367.3	370.7	372.8	380.3	382.2	397.6	401.4	402.7	406.9	404.6	409.8	427.7
Deposits of domestic enterprises and private persons	629.8	647.0	697.9	705.2	737.1	740.3	762.7	778.0	796.8	821.4	830.8	848.2
In foreign currencies	303.6	309.8	328.5	335.3	354.0	346.3	367.8	377.7	385.7	403.5	402.7	398.0
Domestic money supply M2D ¹	693.5	707.9	742.2	750.2	765.3	791.6	796.3	803.0	818.0	822.4	838.0	877.9
Net foreign assets	522.2	529.3	565.1	589.7	604.2	603.6	610.5	611.4	599.7	576.5	580.5	536.9
Net domestic assets	474.9	488.5	505.6	495.8	515.2	534.4	553.6	569.3	603.9	649.5	660.2	739.0
Loans of domestic enterprises and private persons	669.2	672.0	704.2	730.9	744.8	747.1	763.6	787.6	811.7	834.8	873.8	904.2
Bank of Latvia refinancing rate (at end of month; %)	4.0	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Weighted average interest rates on transactions in lats (%)												
Interbank loans	1.7	3.0	3.0	2.7	2.1	3.3	4.3	2.9	3.0	4.8	2.8	3.3
Short-term loans to enterprises and private persons	9.7	10.6	9.9	10.6	11.0	11.2	12.1	14.2	13.7	14.1	13.6	11.8
Time deposits of enterprises and private persons	4.0	3.9	4.3	4.5	5.0	5.1	5.0	3.9	4.5	4.6	4.8	4.5
LVL vs USD (at end of month)	0.588	0.598	0.596	0.602	0.606	0.600	0.606	0.613	0.615	0.624	0.625	0.613
LVL vs EUR (at end of month)	0.581	0.574	0.568	0.555	0.562	0.567	0.565	0.547	0.543	0.525	0.536	0.570

¹ Currency outside banks + deposits in lats received from domestic enterprises and private persons.

THE BANK OF LATVIA'S MONTH-END BALANCE SHEETS FOR 2000

(in thousands of lats)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ASSETS												
FOREIGN ASSETS	645 607	635 868	657 349	663 865	637 346	647 907	686 084	671 675	648 972	686 826	683 998	669 551
Gold	42 010	43 560	41 202	41 446	41 154	43 549	42 004	41 584	42 464	41 087	41 900	41 917
Special Drawing Rights	264	7	7	327	13	8	332	2	2	329	6	3
Convertible foreign currencies	498 195	486 451	509 424	514 657	488 203	499 137	538 015	522 584	502 135	539 127	538 151	521 512
International Monetary Fund	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144	101 144
Shares in the BIS	983	1 019	964	970	965	1 022	985	976	996	964	983	983
Non-convertible currencies	266	269	272	275	278	278	282	286	288	290	–	–
Other foreign assets	2 745	3 418	4 336	5 046	5 589	2 769	3 322	5 099	1 943	3 885	1 814	3 992
DOMESTIC ASSETS	148 009	157 881	149 848	188 835	197 950	165 936	160 211	162 712	157 210	143 170	138 357	142 930
Loans to credit institutions	50 106	32 381	47 441	38 084	45 111	42 929	38 769	42 609	44 271	33 257	30 908	42 530
Transit credits	48 970	49 776	33 799	34 085	34 079	32 208	32 514	32 851	25 426	25 751	25 189	23 835
Government securities	27 438	54 377	46 944	92 881	95 418	68 037	66 026	63 300	63 161	60 259	56 712	49 639
Investment in associate	4 798	4 798	4 798	4 798	4 798	2 767	2 767	2 767	2 767	2 767	2 767	–
Fixed assets	15 003	14 889	15 079	16 254	16 365	17 114	17 227	17 991	18 908	18 706	20 260	22 657
Other domestic assets ¹	1 694	1 660	1 787	2 733	2 179	2 881	2 908	3 194	2 677	2 430	2 521	4 269
TOTAL ASSETS	793 616	793 749	807 197	852 700	835 296	813 843	846 295	834 387	806 182	829 996	822 355	812 481
LIABILITIES, CAPITAL AND RESERVES												
FOREIGN LIABILITIES	133 389	135 680	130 514	129 978	129 209	128 304	125 987	126 498	126 007	125 833	125 132	129 053
International Monetary Fund	127 174	127 174	127 174	127 174	126 598	125 074	123 549	123 538	123 538	123 538	123 538	122 014
Foreign bank deposits in lats	217	247	361	314	409	738	357	340	281	260	209	158
Non-convertible currencies	40	41	41	41	42	42	43	43	43	44	44	42
Other foreign liabilities	5 958	8 218	2 938	2 449	2 160	2 450	2 038	2 577	2 145	1 991	1 341	6 839
LATS IN CIRCULATION	409 052	412 093	411 082	419 828	425 292	442 140	449 188	448 068	452 897	455 253	461 704	482 314
DOMESTIC LIABILITIES	205 724	200 015	219 722	258 264	235 802	197 345	224 773	213 929	180 868	202 586	186 711	140 723
Balances due to credit institutions	58 346	54 660	67 547	80 920	87 069	59 139	101 590	89 875	74 399	103 474	96 752	80 453
Balances due to the Government	138 430	136 223	143 030	165 849	136 234	124 669	107 778	106 589	87 247	78 412	66 410	45 926
Balances due to other financial institutions	4 388	4 243	4 014	3 929	3 864	6 564	6 810	6 875	6 932	6 942	6 857	3 950
Other domestic liabilities	4 560	4 889	5 131	7 566	8 635	6 973	8 595	10 590	12 290	13 758	16 692	10 394
CAPITAL AND RESERVES	45 451	45 961	45 879	44 630	44 993	46 054	46 347	45 892	46 410	46 324	48 808	60 391
Nominal capital	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750	4 750
Reserve capital	2 181	2 181	2 181	2 181	2 181	2 181	2 181	2 181	2 181	2 181	2 181	3 297
Other reserves	25 243	25 243	25 243	25 243	25 243	25 243	25 243	25 243	25 243	25 243	25 243	32 497
Valuation account	12 762	13 272	13 190	11 940	12 303	13 364	13 656	13 197	13 715	13 628	16 112	19 325
European Union grant	515	515	515	516	516	516	517	521	521	522	522	522
TOTAL LIABILITIES, CAPITAL AND RESERVES	793 616	793 749	807 197	852 700	835 296	813 843	846 295	834 387	806 182	829 996	822 355	812 481

¹ As of September 2000, intangible assets, which were included in the caption "Fixed assets" from January to August 2000, are stated here.

THE BANK OF LATVIA'S YEAR-END BALANCE SHEETS FOR THE YEARS 1996–2000

(in thousands of lats)

	1996	1997	1998	1999	2000
ASSETS					
FOREIGN ASSETS	518 240	572 038	576 205	656 304	669 551
Gold ¹	51 176 ²	43 147 ²	40 651	42 215	41 917
Special Drawing Rights	1 251	1 201	165	1 788	3
Convertible foreign currencies	389 826 ³	447 318 ³	455 729	506 582	521 512
International Monetary Fund	72 929	72 929	72 929	101 144	101 144
Shares in the BIS ⁴	1 198 ⁵	1 010 ⁵	951	988	983
Non-convertible currencies	1 386	1 364	346	276	–
Other foreign assets	474 ⁶	5 069 ^{6,7}	5 434 ⁷	3 311	3 992
DOMESTIC ASSETS	82 283	115 074	166 112	165 104	142 930
Loans to credit institutions	9 950	7 551	52 040	63 322	42 530
Transit credits	30 575	59 394	54 344	50 110	23 835
Other loans	19 707	–	–	–	–
Government securities	14 077	40 998	49 416	30 156	49 639
Investment in associate	–	–	–	4 726	–
Fixed assets	6 086	6 274	9 243	15 117	22 657
Other domestic assets	1 888	857	1 069 ⁷	1 673 ⁸	4 269
TOTAL ASSETS	600 523	687 112	742 317	821 408	812 481
LIABILITIES, CAPITAL AND RESERVES					
FOREIGN LIABILITIES	145 805	127 015	110 784	134 653	129 053
International Monetary Fund	145 497	124 134	109 418	128 699	122 014
Foreign bank deposits in lats	67	251	250	321	158
Non-convertible currencies	235	231	53	42	42
Other foreign liabilities	6	2 399 ⁷	1 063 ⁷	5 591	6 839
LATS IN CIRCULATION	282 602	359 353	374 448	426 101	482 314
DOMESTIC LIABILITIES	137 003	155 153	202 601	214 333	140 723
Balances due to credit institutions	52 780	80 531	95 669	95 765	80 453
Balances due to the Government ⁹	73 578	69 689	101 639	110 278	45 926
Balances due to other financial institutions	5 295	1 857	1 336	4 341	3 950
Other domestic liabilities	5 350	3 076	3 957 ⁷	3 949	10 394
CAPITAL AND RESERVES	35 113	45 591	54 484	46 321	60 391
Nominal capital	2 500	4 455	4 750	4 750	4 750
Reserve capital	625	1 407	2 181	2 181	3 297
Other reserves	13 494	18 577	25 243	25 243	32 497
Valuation account	18 067 ¹⁰	20 713 ^{10, 11}	21 864	13 632	19 325
European Union grant	427	439	446	515	522
TOTAL LIABILITIES, CAPITAL AND RESERVES	600 523	687 112	742 317	821 408	812 481

¹ In the financial statements for 1996, gold reserves were valued at USD 300 per troy ounce. In the financial statements for 1997, gold reserves were valued at LVL 175.50 per troy ounce.

² Gold reserves were valued at market rate by applying the current gold valuation policy retrospectively.

³ Restated to include accrued interest income on foreign securities and funds held on behalf of the Government, which were reported in the financial statements for 1996–1997 under the captions "Other assets" and "Other foreign assets".

⁴ In the financial statements for 1996, the value of the shares was stated at gold equivalent (USD 300 per troy ounce). In the financial statements for 1997, the value of the shares was stated at gold equivalent (LVL 175.50 per troy ounce).

⁵ The shares were valued at the market rate of gold by applying the current gold valuation policy retrospectively.

⁶ Restated to include accrued interest income on deposits with foreign banks and other foreign financial institutions, which was reported under the caption "Other assets" in the financial statements for 1996–1997.

⁷ Restated in accordance with the accounting policy for unsettled forward contracts and currency swap arrangements, revised in 1999, to report the surplus arising from the respective unsettled financial instruments on a gross basis.

⁸ Restated to include intangible assets, which were reported under the caption "Fixed assets" in the financial statements for 1999.

⁹ In the financial statements for 1996–1997, the Government's foreign borrowings and humanitarian aid deposits were stated separately.

¹⁰ Restated to account for the change in the value of gold reserves and in the shares in the Bank for International Settlements as a result of retrospectively valuing gold at market rate in accordance with the current gold valuation policy.

¹¹ Restated in accordance with the revised accounting policy for unsettled forward contracts and currency swap arrangements to report the net surplus arising from the respective unsettled financial instruments.

**THE BANK OF LATVIA'S PROFIT AND LOSS STATEMENTS
FOR THE YEARS 1996–2000**

(in thousands of lats)

	1996	1997	1998	1999	2000
INTEREST INCOME					
Foreign operations	19 322	23 394	25 834	22 138	28 459
Domestic operations	4 942	3 558	5 588	6 096	5 496
INTEREST EXPENSE					
Foreign operations	2 272	1 529	724	400	439
Domestic operations	2 988	2 750	5 113	4 870	3 754
NET INTEREST INCOME	19 004	22 673	25 585	22 964	29 762
SPECIFIC PROVISIONS	1 142	2 658	3 000	10 748	290
LOSS ON DISPOSAL OF INVESTMENT IN ASSOCIATE	–	–	–	–	2 030
OTHER OPERATING INCOME	611	622	482	3 884	527
OTHER OPERATING EXPENSE	11 550	12 817	15 332	16 100	16 809
PROFIT BEFORE APPROPRIATION	6 923	7 820	7 735	–	11 160

**THE BANK OF LATVIA'S EXCHANGE RATES FOR THE EURO, THE
BRITISH POUND, THE JAPANESE YEN AND THE US DOLLAR**

(LVL vs foreign currency)

2000	EUR			GBP			100 JPY			USD		
	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum
I	0.6011	0.5930	0.5806	0.9650	0.9556	0.9410	0.5710	0.5567	0.5480	0.5880	0.5828	0.5790
II	0.5950	0.5855	0.5735	0.9600	0.9534	0.9450	0.5540	0.5437	0.5340	0.5980	0.5940	0.5910
III	0.5798	0.5756	0.5681	0.9550	0.9414	0.9330	0.5660	0.5576	0.5430	0.5980	0.5956	0.5930
IV	0.5736	0.5665	0.5535	0.9500	0.9448	0.9400	0.5710	0.5659	0.5580	0.6020	0.5965	0.5920
V	0.5630	0.5521	0.5444	0.9540	0.9241	0.8990	0.5720	0.5634	0.5570	0.6140	0.6102	0.6020
VI	0.5779	0.5707	0.5631	0.9140	0.9066	0.9000	0.5760	0.5653	0.5580	0.6070	0.6010	0.5980
VII	0.5738	0.5686	0.5617	0.9190	0.9110	0.9040	0.5710	0.5608	0.5540	0.6080	0.6035	0.5990
VIII	0.5638	0.5541	0.5466	0.9230	0.9116	0.8880	0.5780	0.5647	0.5570	0.6130	0.6107	0.6090
IX	0.5500	0.5382	0.5285	0.9010	0.8856	0.8700	0.5850	0.5792	0.5710	0.6230	0.6180	0.6100
X	0.5433	0.5323	0.5184	0.9100	0.9026	0.8970	0.5800	0.5737	0.5670	0.6270	0.6212	0.6150
XI	0.5370	0.5327	0.5247	0.9040	0.8895	0.8810	0.5800	0.5733	0.5670	0.6300	0.6236	0.6190
XII	0.5707	0.5529	0.5375	0.9170	0.9027	0.8890	0.5630	0.5521	0.5360	0.6250	0.6187	0.6130

CREDIT INSTITUTIONS LICENSED IN THE REPUBLIC OF LATVIA¹**BANKS**

1. JSC *Aizkraukles banka*
2. JSC *Baltijas Starptautiskā banka*
3. Joint-Stock Commercial Bank *Baltijas Tranzītu banka*
4. JSC *Hansabanka*
5. JSC *Latvijas Biznesa banka*
6. JSC *Latvijas Ekonomiskā komercbanka*
7. State JSC *Latvijas Hipotēku un zemes banka*
8. JSC *Latvijas Krājbanka*
9. JSC *Latvijas tirdzniecības banka*
10. JSC *Latvijas Unibanka*
11. JSC *Māras banka*
12. JSC *Multibanka*
13. JSC *Ogres komercbanka*
14. JSC *Pareks-banka*
15. JSC *Bank Paritāte*
16. JSC *Pirmā Latvijas Komercbanka*
17. JSC *Rietumu Banka*
18. JSC *Saules banka*
19. JSC *Trasta komercbanka*
20. JSC *VEF banka*
21. JSC *Vereinsbank Rīga*

CREDIT UNIONS

1. *Allažu saime*
2. *Avots 37*
3. *Dzelzceļnieks KS*
4. *Jūrnieku forums*
5. *Kauguru Kooperatīvā krājaizdevu sabiedrība*
6. *Lielvārdes Kooperatīvā krājaizdevu sabiedrība*
7. *Līgatnes Druva*
8. *Metalurgu kooperatīvā krājaizdevu sabiedrība*
9. *Pūņu Kooperatīvā krājaizdevu sabiedrība*
10. *Raunas Kooperatīvā krājaizdevu sabiedrība*
11. *Rucavas krājaizdevu sabiedrība*
12. *Rūjienas Kooperatīvā krājaizdevu sabiedrība*
13. *Savstarpējo ieguldījumu nams*
14. *Skolu krājaizdevu sabiedrība*
15. *Taurenas Kooperatīvā krājaizdevu sabiedrība*
16. *Veselavas Kooperatīvā krājaizdevu sabiedrība*
17. *Zosēnu Kooperatīvā krājaizdevu sabiedrība*

BRANCH OF FOREIGN BANK

1. Riga Branch of *Merita Bank Plc.*

¹ As at the end of 2000.

*Appendix 7***THE BANK OF LATVIA'S ORGANIZATIONAL UNITS AT THE END OF 2000****1. ACCOUNTING DEPARTMENT**

(Head of Department, Chief Accountant – Māris Kālis; Deputy Chief Accountants – Maija Kurpniece, Antonija Sileniece)

1.1. Internal Banking Operations Division (Head of Division – Anita Jakāne)

1.2. Central Accounting Division (Head of Division – Jānis Caune)

2. CASHIER'S AND MONEY OPERATIONS DEPARTMENT

(Head of Department – Uldis M. Klauss; Deputy Head of Department – Veneranda Kausa)

2.1. Cash Operations Division (Head of Division – Oskars Zaltans)

2.2. Money Operations Division (Head of Division – Alīte Grobiņa)

2.3. Coin Division (Head of Division – Maruta Brūkle)

3. CONSTRUCTION DEPARTMENT

(Head of Department – Juris Kozlovskis; Deputy Head of Department – Jānis Komisars)

4. CREDIT INSTITUTIONS SUPERVISION DEPARTMENT

(Head of Department – Jānis Placis; Deputy Head of Department [Legal Issues and Licensing] – Jānis Brazovskis)

4.1. Supervision Division (Head of Division, Deputy Head of Department – Jeļena Lebedeva)

4.2. Banking Regulations and Analysis Division (Head of Division – Ludmila Vojevoda)

4.3. Legal and Licensing Division (Head of Division – Guntis Cerbulis)

5. FOREIGN EXCHANGE DEPARTMENT

(Head of Department – Roberts L. Grava)

5.1. Payments and Settlements Division (Head of Division – Una Ruka)

5.2. Trading and Investment Division (Head of Division, Deputy Head of Department – Toms Siliņš)

5.3. External Debt Management Division (Head of Division – Agita Birka)

5.4. Analysis Division (Head of Division, Deputy Head of Department – Aigars Egle)

5.5. Risk Control Division (Head of Division – Daira Brunere)

6. FOREIGN RELATIONS DEPARTMENT

(Head of Department – Guntis Valujevs; Deputy Head of Department – Juris Kravalis)

7. GENERAL OFFICE

(Head of Department – Elvīra Kulberga)

7.1. Division for Translation and Business Travel Services (Head of Division – Gundega Vizule)

7.2. Clerical Office (Head of Clerical Office – Dace Mūrniece)

7.3. Library (Manager of Library, Deputy Head of Department – Dace Gasiņa)

8. GENERAL SERVICE DEPARTMENT

(Head of Department – Einārs Cišs)

Appendix 7
(cont.)

- 8.1. Communications and Service Division (Head of Division, Deputy Head of Department – Juris Liepa)
- 8.2. Building Exploitation Division (Head of Division – Arnis Bērziņš)
- 8.3. Transport Division (Head of Division – Imants Vācietis)

9. INFORMATION SYSTEMS DEPARTMENT

(Head of Department – Harijs Ozols; Deputy Head of Department – Ivo Odītis)

- 9.1. System Design and Programming Division
- 9.2. System Maintenance Division (Head of Division – Edvīns Mauriņš)
- 9.3. System Security and Quality Assurance Division (Head of Division – Ilona Etmane)
- 9.4. Computer Network and Server Systems Division (Head of Division – Egons Bušs)

10. INTERNAL AUDITING DEPARTMENT

(Head of Department – Modris Briedis)

- 10.1. Bank Audit Division (Head of Division, Deputy Head of Department – Anita Hāznere)
- 10.2. Information Systems Audit Division (Head of Division – Ilze Murāne)

11. LEGAL DEPARTMENT

(Head of Department – Reinis Jakovļevs; Deputy Head of Department – Bruno Mačs)

12. MONETARY POLICY DEPARTMENT

(Head of Department – Helmūts Ancāns; Deputy Heads of Department – Zoja Medvedevskiha, Laila Rūse)

- 12.1. Macroeconomic Analysis Division (Head of Division – Vilnis Purviņš)
- 12.2. Open Market Operations Division (Head of Division – Anda Kalniņa)
- 12.3. Financial Market Analysis Division (Head of Division – Jeļena Zubkova)
- 12.4. Monetary Research and Forecasting Division (Head of Division – Ēriks Āboliņš)

13. PAYMENT SYSTEMS DEPARTMENT

(Head of Department – Egons Gailītis)

- 13.1. Payment Systems Policy Division (Head of Division – Anda Zalmane)
- 13.2. Payment Systems Operations Division (Head of Division – Agnija Hāzenfuss)
- 13.3. Account Service and Maintenance Division (Head of Division – Natālija Popova)

14. PERSONNEL DEPARTMENT

(Head of Department – Inta Lovnika; Deputy Head of Department – Elita Ošmuciece)

15. PUBLIC RELATIONS DEPARTMENT (Head of Department, Press Secretary – Edžus Vējiņš; Deputy Head of Department – Kristaps Otersons)

16. PUBLICATIONS DEPARTMENT

(Head of Department – Aina Raņķe; Deputy Head of Department – Aija Grīnfelde)

Appendix 7
(cont.)

17. SECURITY DEPARTMENT

(Head of Department – Aldis Liekniņš; Deputy Head of Department – Andis Bērziņš; Chief of Staff – Igors Fleitmanis)

17.1. Daugavpils Division (Head of Division – Ilmārs Suhockis)

17.2. Liepāja Division (Head of Division – Gints Liepiņš)

17.3. Rēzekne Division (Head of Division – Arnis Stirna)

17.4. Valmiera Division (Head of Division – Aldis Zemmers)

18. STATISTICS DEPARTMENT

(Head of Department – Agris Caune; Deputy Head of Department – Ilmārs Skarbnieks)

18.1. Banking and Monetary Statistics Division (Head of Division – Zigrīda Aušta)

18.2. Balance-of-Payments Statistics Division (Head of Division – Daiga Gaigala-Ližbovska)

18.3. Statistics Analysis Division (Head of Division – Inta Gaile)

19. RIGA BRANCH

(Branch Manager – Jānis Strēlnieks)

20. DAUGAVPILS BRANCH

(Branch Manager – Jolanda Mateša)

21. LIEPĀJA BRANCH

(Branch Manager – Gundars Lazdāns)

22. RĒZEKNE BRANCH

(Branch Manager – Vilhelmīne Landsberga)

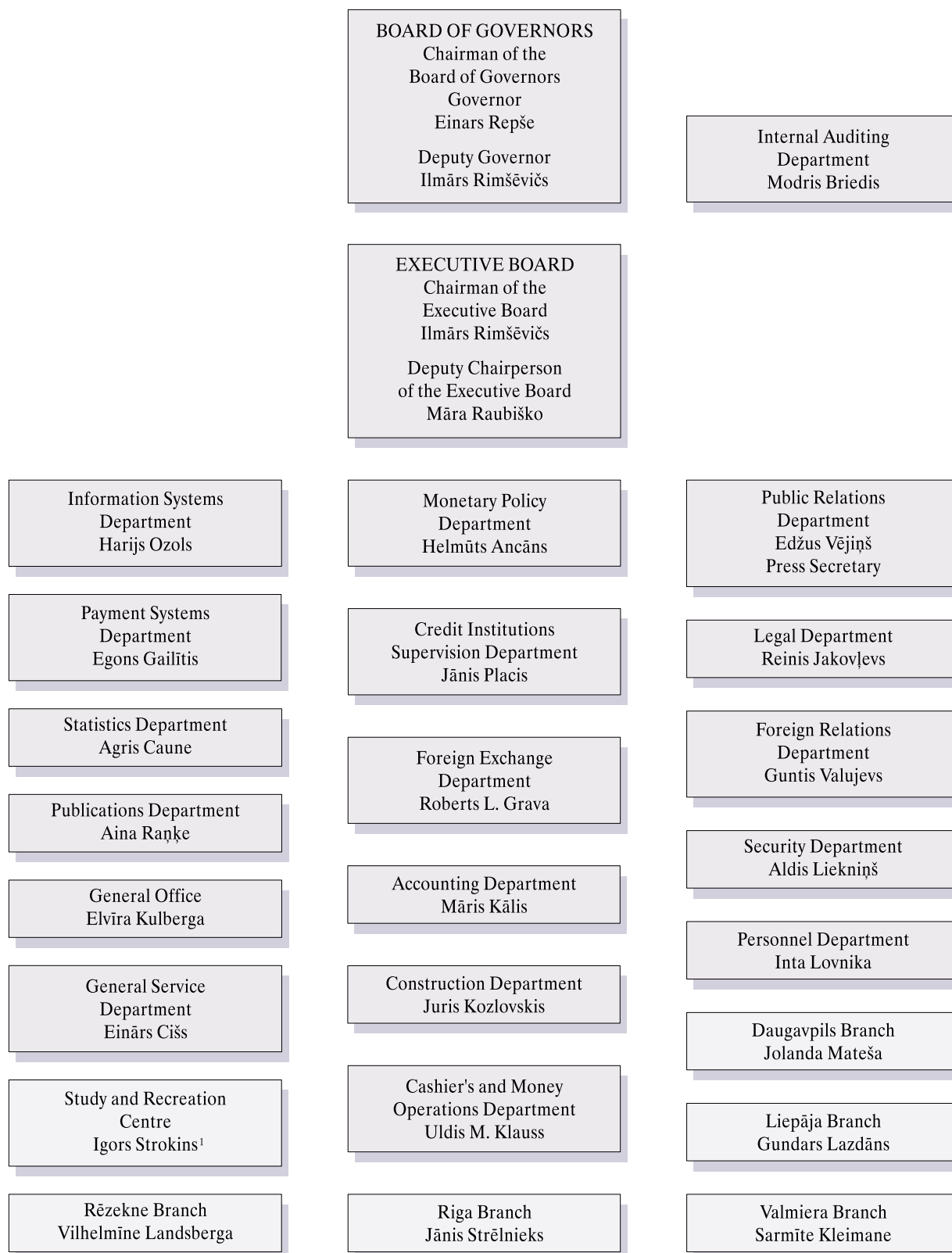
23. VALMIERA BRANCH

(Branch Manager – Sarmīte Kleimane)

24. STUDY AND RECREATION CENTRE

(Director – Igors Strokins¹)

¹ As of January 22, 2001, Zaiga Blūma.



¹ As of January 22, 2001, Zaiga Blūma.

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