

A/S Latvijas Biznesa Banka

*Annual report for the year ended
31 December 1998*

*A/S Latvijas Biznesa Banka
Annual Report
for the year ended 31 December 1998*

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Management report

A/s Latvijas Biznesa Banka was registered with the Republic of Latvia Enterprise Register on 26 May 1992. It was licensed by the Bank of Latvia to conduct banking business on 7 May, 1993.

The Bank's legal address is Mazā Pils Street 3, Riga, Latvia.

During 1998, the operations of the Bank were substantially affected by the Russian financial crisis, aggravation of the financial situation in the other CIS countries. This resulted in decreased levels of client business activity that subsequently produced an impact on financial performance indicators of the Bank. As the Bank incurred losses on revaluation of investments resulting from currency depreciation, limited repatriation of hard currency resources from CIS countries and additional provisions required for Russian Government bonds and municipal securities.

The below restrictions imposed additionally by the Bank of Latvia in 1996 continued to be effective during 1998:

- restriction to place funds in non-OECD members countries, restriction to open foreign exchange positions in currencies of non-OECD countries;
- restriction to accept private individual deposits.

Over the first half of 1998, operating under circumstances of certain economic stability, the Bank made a profit of LVL 36,000, however, the subsequent crisis led to a loss of LVL 682,000 for the year ending 31 December 1998.

Despite of the adverse market conditions, in 1998 the Bank carried out the following steps:

- increased share capital up to LVL 3 million;
- introduced changes to the management organisational and technological structure of the Bank;
- commenced work on modification of the Bank's asset mix with a view of optimising risks and earnings;
- resumed lending activity via leasing operations, providing real estate mortgages, acceptance of corporate deposits.
- at the beginning of the year the size of the loan portfolio constituted LVL 1,000 and reached LVL 430,00 at the year end;
- fully renewed hardware for the purpose of introducing a new accounting program;
- engaged in advertising and promotional activities in Latvia, Russia and Poland with the involvement of Mosbusiness Bank, the Bank's major shareholder, in order to retain the client base and expand purposes;
- carried out preparatory work and commenced implementing investment projects;
- ensured an average increase of 20% in balances on client accounts at the end of 1998 in comparison with the indicators for the post-crisis period;
- during the second half of 1998, incurred minimal loss on withdrawal assets from countries with increased risk levels.

Following the close of the reporting year, the Bank was able to recover resources invested in government securities of the Republic of Saha (Yakutsk) for which provisions were made in 1998 based on the prudence principle.

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In 1999 the Bank plans to implement the following measures:

- to increase share capital no less than up to LVL 3,5 – 4,0 million over 1999 and to raise subordinated capital with a view of increasing equity not less than up to LVL 4.00 million;
- to perform preparatory work necessary to make possible the abolition of the additional restrictions imposed on the Bank by the Bank of Latvia in 1996 (including prohibition to place free resources in non-OECD countries, on open foreign exchange positions in currencies of those non-OECD countries, receipt of a permit to take deposits from private individuals);
- setting up a sub-branch network to service legal entities and private individuals (settlements, foreign exchange operations, payments for utilities and other types of payments);
- development of the Bank's hardware;
- reconstruction of the Bank's office;
- purchase of a Reuters facility to ensure availability of timely and reliable information on activities carried on at securities exchanges and currency markets with a view to implementing technologies to enable placing the Bank's resources on international markets and to provide facilities to be able to conduct deals in securities of Western and Central European countries;
- development and implementation of technologies to service the Bank's transit business and client export and import operations in both Eastern and Western business environment, taking into consideration and using the potential and capabilities of Mosbusiness Bank, the Bank's major shareholder;
- further development of the Bank's lending business including provision of opportunities for Mosbusiness Bank, the Bank's major shareholder, to perform lending activities in the territory of Latvia, at the same time, utilising the potential of a subsidiary, to engage in the management and monitoring of the above operations;
- to carry out adequate advertising campaign to create an image of the Bank that would help increase the number of the Bank's clients.

Chairman of the Council

Chairman of the Board

G. Dragiļev

18 March 1999

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Supervisory council

Aleksejs Obozincevs	Chairman of the Supervisory Council
Vadims Trofimovs	Member of the Supervisory Council
Igors Koņuhovs	Member of the Supervisory Council
Jānis Dzērvītis	Member of the Supervisory Council
Jānis Ozoliņš	Member of the Supervisory Council
Aleksandrs Gapoņenko	Member of the Supervisory Council
Vjačeslavs Kuzņecovs	Member of the Supervisory Council
Alberts Paže	Candidate of member of the Supervisory Council

Chairman of the
Supervisory Council

/Georgij Dragilev/
Chairman of the
Management Board

18 March 1999

Management Board

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Georgijs Dragiļevs	Chairman of the Management Board	
Alfreds Silavs	Member of the Management Board	
Jeļena Kapitonova	Member of the Management Board	
Oļegs Čerkovskis	Chairman of the Management Board	Resigned from the position in 1998
Juris Baltgailis	Member of the Management Board	Resigned from the position in 1998
Ludmila Aņiščenko	Member of the Management Board	Resigned from the position in 1998

Chairman of the
Supervisory Council

/Georgij Dragilev/
Chairman of the
Management Board

18 March 1999

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**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
A/S LATVIJAS BIZNESAS BANKA**

We have audited the financial statements of A/S Latvijas Biznesa Banka on pages 9 to 26. These financial statements are the responsibility of the Bank's management, as referred to in the Statement of Management Responsibilities on page 7. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain sufficient evidence to give us 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 give true and fair view of the financial position of the Bank as at 31 December 1998 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion we draw attention to the Note 1 of the Summary on accounting methods. As noted in Note 1 of the Summary on accounting methods the Bank is required to increase its share capital by 31 December 1999 to meet the Bank of Latvia increased minimum requirements.

PricewaterhouseCoopers
Riga, Latvia

18 March 1999

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**Profit and loss account
for the year ended 31 December 1998**

	Notes	1998 LVL '000	1997 LVL'000
Interest income	3	276	201
Interest expense	4	<u>(15)</u>	<u>(21)</u>
Net interest income		<u>261</u>	<u>180</u>
Commission income	5	81	129
Commission expense	6	(60)	(54)
Net loss arising from trading with securities and foreign exchange	7	(521)	(74)
Other operating income		5	5
Administrative expenses	8	(322)	(148)
Depreciation of fixed assets	15	(40)	(37)
Increase in provisions	9	(92)	(11)
Release of provisions for loans	14	<u>9</u>	<u>2</u>
(Loss) / profit before taxation		(679)	40
Taxation	10	<u>(2)</u>	<u>(1)</u>
Profit / (loss) for the year		<u>(681)</u>	<u>39</u>

The financial statements on pages from 9 to 26 were approved by the Supervisory Council and the Management Board on 18 March 1999 and signed on Bank's behalf by:

/Georgij Dragiļev/
Chairman of the
Management Board

Chairman of the
Supervisory Council

/Jeļena Kapitonova/
Chief Accountant

The accompanying notes are an integral part of these financial statements.

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**Balance sheet
as at 31 December 1998**

	Notes	1998 LVL '000	1997 LVL'000
Assets			
Cash and balance due from Bank of Latvia	11	185	78
Due from other credit institutions		1,291	1,000
<i>demand balances</i>	12	791	793
<i>other balances</i>	13	500	207
Loans and advances to customers	14	430	1
Investments in debt securities	15	692	1,196
Investments in equity securities		8	61
Fixed assets, net	16	191	213
Other assets		4	11
Accrued income and deferred expenses		8	5
Total assets		2,809	2,565
Assets under management	17	126	55
Total assets and assets under management		2,935	2,620
Liabilities			
Due to other credit institutions		6	338
<i>demand balances</i>		6	-
<i>term balances</i>		-	338
Current accounts		656	979
<i>demand balances</i>	18	486	979
<i>term balances</i>		170	-
Other liabilities		3	11
Accrued expenses and deferred income		21	24
Subordinated debt	21	-	325
Total creditors		686	1,677
Share capital and reserves			
Share capital	19	3,000	1,100
Share premium		20	20
Legal reserves		58	42
Accumulated loss		(955)	(274)
Total share capital and reserves		2,123	888
Total liabilities		2,809	2,565
Liabilities under management	17	126	55
Total liabilities ,shareholders funds and liabilities under management		2,935	2,620
Off balance sheet commitments	20	6	1,194
Total off balance sheet commitments		6	1,194

The financial statements were approved by the Supervisory Council and the Management Board on 18 March 1999 and signed on Bank's behalf by:

/Georgij Dragilev/
Chairman of the
Management Board

Chairman of the
Supervisory Council

/Jelena Kapitonova/
Chief Accountant

The accompanying notes are an integral part of these financial statements.

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**Statement of changes in shareholders' equity
as at 31 December 1998**

	Share Capital LVL'000	Share Premium and contributed surplus LVL'000	Legal reserve LVL'000	Retained Earnings / (Accu- mulated Deficit) LVL'000	Total LVL'000
At 31 December 1996	1,100	20	42	(313)	849
Net income	-	-	-	39	39
At 31 December 1997	1,100	20	42	(274)	888
Share emission	1,900	-	-	-	1,900
Other payments into capital	-	-	16	-	16
Net income	-	-	-	(681)	(681)
At 31 December 1998	3,000	20	58	(955)	2,123

The accompanying accounting notes are an integral part of these financial statements.

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**Cash flow statement
for the year ended 31 December 1998**

	Notes	1998 LVL'000	1997 LVL'000
Cash flow from operating activities			
Net income / (loss) before taxation		(679)	40
Depreciation and write-off of fixed assets		46	37
Provisions for doubtful debts increase / (decrease)		92	9
Foreign exchange (gain) / losses		419	22
Accrued expenses and deferred income increase / (decrease)		(3)	3
Accrued income and deferred expenses (increase) / decrease		(3)	
Other assets decrease		7	14
Other liabilities decrease		(8)	(9)
Changes in operating assets and liabilities			
Short-term investment (increase) / decrease		465	(272)
Loans (increase) / decrease	14	(429)	4
Due to other credit institutions increase / (decrease)		(332)	243
Deposits increase / (decrease)		(323)	164
Taxation		(2)	(1)
Net cash provided by (used in) operating activities		(750)	254
Cash flow from investing activities			
Additions of fixed assets	16	(24)	(183)
Net cash used in investing activities		(24)	(183)
Cash flow from financing activities			
Share emission and attraction of subordinated debt		1,900	-
Subordinated debt repayments		(325)	-
Income from other sources of financing		16	-
Net cash provided by financing activities		1,591	-
Cash and cash equivalents at the beginning of year		1,078	1,009
Net increase in cash and cash equivalents		817	69
Foreign currency gain		(419)	(2)
Cash and cash equivalents at end of year		1,476	1,078

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

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1. General information

Latvian Business Bank ("The Bank") was established on 18 May 1992, it was incorporated in the Republic of Latvia as a joint stock company, in which the shareholders have limited liability. The Bank is a 99.6% subsidiary of Moscow Business Bank, registered in Russia.

Financial statements are presented in the national currency of Latvia, the Lat ("LVL").

The Latvian economic and banking environment

The currency of the Republic of Latvia is the Lat (Ls or LVL) and is internally convertible with hard currencies without exchange controls. The exchange rate of the Lat is maintained by the Bank of Latvia relative to the International Monetary Fund Special Drawing Right (SDR). The rate of exchange has remained generally stable during the year with a slight overall decline against the USD. Official exchange rates of the Bank of Latvia for LVL against major currencies are as follows:

		USD	DEM	SEK	RUR
at 31 December 1998	LVL 1.00 =	1.757	2.941	14.22	37.45
at 31 December 1997	LVL 1.00 =	1.695	3.003	13.157	10,141

The Bank of Latvia regulates Latvian banks and similar credit institutions in accordance with the Law on Credit Institutions and other applicable legislation. The minimum foundation capital and own capital (ie. shareholders' equity) for credit institutions required by law was increased to Ls 2,000,000 from 1 April 1998. This minimum capital requirement will be increased to Euro 5,000,000 by 31 December 1999. In addition to the minimum capital requirements, the Bank of Latvia requires banks to meet their prudential limit ratios consistently and to be in compliance with other Bank of Latvia regulations, in order to receive an unrestricted banking licence.

The management of the Bank is not planning to generate sufficient funds through operating activities in order to provide the required amount for compliance of the Bank of Latvia regulation of capital. The management is confident that the parent company Mossbusiness Bank will produce sufficient capital to meet the Bank of Latvia required minimum.

At 31 December 1998, there were 27 licensed banks in Latvia. These include one fully State owned bank, one bank with a controlling shareholding owned by the State, a subsidiary of a German bank, and a branch of a French bank. Three Nordic banks have acquired direct or indirect strategic interests in four Latvian banks since the end of 1997.

During 1998, the Bank of Latvia suspended or withdrew the licenses of 4 Latvian credit institutions. At 31 December 1998, 23 credit institutions were licensed to accept term deposits from private customers. On 7 March 1999, the Bank of Latvia resolved to suspend the operations of one of the largest Latvian banks and has submitted a claim to the court to declare the bank insolvent, following losses arising from Russian investments.

A strict monetary policy has in recent years reduced inflation and interest rates as well as stabilised the exchange rate. During 1998, the annual rate of inflation in Latvia has continued to decrease to 3.5% (1997 – 7%). Interest rates have shown a notable increase in 1998, reversing the downward trend of 1997. Average discount rates on one month Latvian Treasury bills were approximately 3.4 % at the start of 1998, increasing to around 7% at the year end. The average interest rate on commercial loans increased from 12.1% at the start of 1998 to 15.8 % at the year end. The average interest rate on deposits accepted by domestic banks from the public increased from 5.4% at the start of 1998 to 6.7% at the year end.

Historically Latvia has been closely tied to Russia, serving as a transit economy between the East and the West. Russia is an important trade partner, accounting for 12% of both Latvian export sales and import purchases in 1998. Export of goods and services to Russia suffered significantly following the economic crisis in Russia.

2. Accounting methods

(1) Basis of preparation

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The financial statements have been prepared on the historical cost basis of accounting, in accordance with International Accounting Standards (IAS) and general practices within the banking industry.

(2) Interest, Fees and Commissions

Interest income is recognised on the accrual basis. The bank fully provides for interest accrued on loans overdue for seven days or more.

Commissions, fees and other income are credited to income when earned.

(3) Foreign Currencies

Transactions denominated in foreign currency are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including immature commitments to deliver or acquire foreign currencies under spot exchange transactions, are translated at the rate of exchange on the balance sheet date. The applicable rates used for the principal currencies as at 31 December were as follows:

	1998	1997
USD	0.569	0.590
RUR	0.0267	0.0000986
LTL	0.142	0.147
DEM	0.340	0.333

All resulting gains and losses arising from dealing activities are recorded in the profit and loss account in the period in which they occur. Gains and losses on translation are credited or charged at foreign exchange rates prevailing at year-end.

(4) Loans

Loans in the annual report are reflected at principal outstanding provision for doubtful debts.

Amount of special provisions is calculated in accordance with the requirements set by the Bank of Latvia, taking into account loan evaluation and using as a guide financial situation and solvency of the loan holder, compliance with the terms set out in the agreement and collectability of the loan.

(5) Trade securities

Trade securities include the shares quoted in Riga Stock Exchange. Trade securities are reflected using the lower of cost or market value.

(6) Long-term investment in securities

Long-term investments include securities, which management of the Bank has purchased with the aim to hold till the date of maturity. Long-term investments in securities are reflected at their purchase price. The premium or discount of the above securities is credited to interest income over the maturity of securities.

(7) Fixed Assets

Fixed assets are stated 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 market value.

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Depreciation is provided in equal annual instalments over the expected useful lives as follows:

Buildings	20 years
Vehicles	5 years
Office equipment	5-10 years

All assets in excess of LVL 50 are capitalised. Gains and losses on disposal of fixed assets are recognised in the profit and loss account in the year of disposal.

(8) Leases

Assets held under finance leases are capitalised at their fair value on the inception of the lease and depreciated over their estimated useful lives. Finance charges are allocated over the period of the lease in proportion to the principal amount outstanding.

(9) Income tax

Corporate income tax is provided at the rate of 25% for all profits, calculated according to Latvian tax legislation.

Deferred income tax is fully provided for all on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from depreciation of fixed assets, general provisions for impairment of loans and losses and tax losses carried forward. When a net deferred tax asset arises it is only recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

(10) Cash and cash equivalents

Cash and cash equivalents are composed of cash, balance due from Bank of Latvia and due from other credit institutions with remaining maturity up to three months which is decreased with liabilities to credit institutions with remaining maturity up to three months.

Cash equivalents include investments in the Latvian government securities with remaining maturity up to three months.

(11) Regulatory requirements

The Bank is subject to the regulatory requirements of the Bank of Latvia. These requirements include capital adequacy, liquidity and foreign currency position.

The Bank's licence does not allow it to hold current accounts and accept deposits from individuals.

(12) Fair values

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

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Notes to the financial statements

3. Interest income

	1998	1997
	LVL'000	LVL'000
On placements with other banks	45	33
On loans and advances to customers	22	2
On investments in CIS debt securities	196	136
On investments in Latvian debt securities	13	30
Total	<u>276</u>	<u>201</u>

4. Interest expense

	1998	1997
	LVL'000	LVL'000
On current and term deposit accounts	10	13
On deposits and loans from other banks	5	8
Total	<u>15</u>	<u>21</u>

5. Commission income

	1998	1997
	LVL'000	LVL'000
Commission income from services to residents	22	23
Commission income from services to non-residents	58	106
Commission income from account management	1	-
Total	<u>81</u>	<u>129</u>

6. Commission income

	1998	1997
	LVL'000	LVL'000
Commission paid to banks residents	(6)	(6)
Commission paid to banks non-residents	(30)	(32)
Accrued commission expenses	(1)	(2)
Commission paid for services from non-residents	(23)	(14)
Total	<u>(60)</u>	<u>(54)</u>

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7. Net loss arising from trading with securities and foreign exchange

	1998	1997
	LVL'000	LVL'000
Foreign exchange (loss)/gain, net	(479)	68
<i>Trade with foreign currency</i>	(60)	90
<i>Revaluation of foreign currency</i>	(419)	(22)
Net gain arising from trading securities	(42)	4
Net gain from financial instruments	-	2
Total	(521)	74

During the year the Bank traded with stocks listed on Riga Stock Exchange with shares of enterprises.

8. Other administrative expenses

Other administrative expenses are composed as follows:

	1998	1997
	LVL'000	LVL'000
Salaries	175	111
Social tax	44	30
Professional fees	23	16
Rent	-	30
Communications	34	36
Write-off of other assets	4	6
Transportation	7	7
Advertising and marketing	3	3
Other	32	9
Total	322	248

Salary and social expenses include employee remuneration, social tax and other payments. The average number of employees in the Bank for the financial year was 34 (1997 - 30).

9. Increase in provisions

	1998	1997
	LVL'000	LVL'000
Provisions for doubtful debts	-	11
Provisions for the Saha Republic (Russia) municipal bonds	34	-
Provisions for the Russian government bonds	58	-
Total	92	11

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10. Taxes

Taxation expenses for the year are land and property taxes.

The Bank has reported a tax loss for 1998 and prior fiscal periods. Latvian tax legislation allows to carry forward tax losses arising in prior fiscal periods to reduce taxable income in future periods for a maximum of five years. The outstanding losses matures as follows:

	Amount LVL'000	Expiry Year
Tax loss reported for the financial year 1995	381	2000
Tax loss reported for the financial year 1998	681	2003
Total	<u><u>1,062</u></u>	

The amount of tax losses exceed all the temporary timing differences between the valuation of assets and liabilities of the Bank according to accounting records and principles of tax calculation. The resulting deferred tax asset is not reflected in the balance sheet of the Bank, due to uncertainty on the availability of taxable income within the above maturity.

11. Cash and balances due from Bank of Latvia

Cash and balance due from Bank of Latvia is comprised as follows:

	1998 LVL'000	1997 LVL'000
Cash	104	30
Balance on demand from Bank of Latvia	81	48
Total	<u><u>185</u></u>	<u><u>78</u></u>

Cash and balance on demand from Bank of Latvia include the required reserve in the amount of LVL 46 thousand (1997: LVL 67 thousand), which is set as 8% from the average Bank's liabilities for the period of one month.

12. Due from other credit institutions on demand

	1998 LVL'000	1997 LVL'000
Latvian credit institutions	455	101
Credit institutions of the OECD area	303	146
Credit institutions of non-OECD area	33	546
Total	<u><u>791</u></u>	<u><u>793</u></u>

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13. Other balances due from other credit institutions

	1998	1997
	LVL'000	LVL'000
Term deposits in the Bank of Latvia	500	-
Short-term investments in the credit institutions of OECD area	-	207
Total	500	207

14. Loans and advances to customers

	1998	1997
	LVL'000	LVL'000
Loans to enterprises, residents	224	68
Loans to private individuals, residents	223	51
Loans to enterprises, non-residents	132	147
Loans to private individuals, non-residents	88	-
Loans and advances to customers	667	266
Provision for loan losses	(237)	(265)
Net loans and advances to customers	430	1

Loans granted to individuals in the amount of LVL 167 thousand are covered by the term deposit LVL 170 thousand held with the Bank. Other loans to individuals are covered by real estate.

Breakdown of loans, granted to enterprises by industry is following:

	1998	1997
	LVL'000	LVL'000
Agriculture	98	-
Manufacturing	129	17
Trade	112	160
Financial services	5	3
Transportation	4	-
Other services	8	35
Total commercial loans	356	215

The following table provides a reconciliation of the current period provision for loan losses to the prior year balance:

	1998	1997
	LVL'000	LVL'000
Provision for loan losses as at beginning of the year	265	256
Release of provisions	(9)	(2)
Provision for loan losses made	-	11
Loans written-off	(19)	-
Provision for loan losses as at the year end	237	265

As at 31 December 1998 and 1997 the Bank was in compliance with the Bank of Latvia requirements concerning loan concentration with one customer, groups of related customers, and individual related parties.

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Notes to the financial statements

15. Investments

	1998 LVL'000	1997 LVL'000
Debt securities:		
Latvian government bonds	692	148
Lithuanian government bonds	-	162
Russian government bonds	30	264
St. Petersburg municipality bonds	-	200
Saha Republic bonds	38	113
Moldavian government bonds	-	294
Ukrainian government bonds	-	15
Specific provisions for Russian government bonds	(30)	-
Specific provisions for Saha Republic bonds	(38)	-
Total	692	1,196

The unamortised discount of securities held by the Bank forms LVL 8 thousand (1997: LVL 2 thousand).

The yield of the Bank's investment portfolio during 1998 was from 7 to 52 % per annum (1997: 4-36%). During 1998 the significant part of the investment portfolio was made by CIS securities. At the end of 1998 when financial crisis began in Russia, the Bank transferred its investments to Latvian government bonds.

16. Fixed assets

Fixed assets are composed as follows:

1998	Vehicles LVL '000	Office Equipment LVL '000	Land and buildings LVL '000	Total Fixed Assets LVL '000
Historical cost				
31 December 1997	19	147	147	313
Disposals	-	(24)	-	(24)
Additions	-	24	-	24
31 December 1998	<u>19</u>	<u>147</u>	<u>147</u>	<u>313</u>
Accumulated depreciation				
31 December 1997	12	87	1	100
Disposals	-	(18)	-	(18)
Calculated depreciation	4	30	6	40
31 December 1998	<u>16</u>	<u>99</u>	<u>7</u>	<u>122</u>
Net book value				
31 December 1998	<u><u>3</u></u>	<u><u>48</u></u>	<u><u>140</u></u>	<u><u>191</u></u>

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1997	Vehicles LVL '000	Office Equipment LVL '000	Land and buildings LVL '000	Total Fixed Assets LVL '000
Historical cost				
31 December 1996	19	111	-	130
Additions	-	36	147	183
31 December 1997	19	147	147	313
Accumulated depreciation				
31 December 1996	8	55	-	63
Charge for the period	4	32	1	37
31 December 1997	12	87	1	100
Net book value				
31 December 1997	7	60	146	213

The assets stated above are held for the Bank's own use.

Part of the fixed assets included in the net book value as at 31 December 1998 valued LVL 2 thousand have been purchased using financial lease. The remaining liabilities respective to the lease on 31 December 1998 amount LVL 3 thousand (1997: remaining value LVL 6 thousand and liabilities LVL 11 thousand).

17. Assets under management and liabilities

The Bank acts as a trustee in purchasing securities on behalf of its customers. The Bank earns interest and commission income for engaging in such transactions. The Bank is not subject to the credit and currency risk related to these securities. The following trust assets and liabilities are under management of the Bank:

	1998 LVL'000	1997 LVL'000
Russian government bonds	126	45
Moldova government bonds	-	10
Total	126	55

The securities above are reflected at their market price as on 31 December 1998 and 1997.

18. Current accounts

	1998 LVL'000	1997 LVL'000
Private enterprises	184	276
Social and religious organisations	8	1
Non-residents	294	702
Total	486	979

Notes to the financial statements

19. Share capital

The registered and paid-in share capital on 31 December 1998 is LVL 3,000,000, comprised of 60,000 ordinary shares with value LVL 50 each (1997: paid-in share capital was LVL 1,100,000, i.e. 22,000 ordinary shares with value LVL 50 each).

On 17 February 1998 the Bank has received a decision of the board of Moscow Business Bank regarding the purchase of share issue as well as permission from the Bank of Russia. In 1998, the Bank registered an increase in share capital of LVL 1,900,000, thus having a total share capital of LVL 2,123,000.

99.6% of Bank's shares are owned by Moscow Business Bank (Russia).

20. Off-balance sheet items

General requirements

The management of the Bank believes that there are no claims or commitments the Bank has entered, which have not been taken into account in preparing these financial statements.

Legal requirements

On 31 December 1998, the Bank was not involved in any court case, except those connected with return of loans provided.

Credit liabilities

Credit liabilities include approved but not yet drawn credit lines to clients. On 31 December 1998 these totalled LVL 6 thousand.

Foreign exchange contracts

On 31 December 1998 there were no unfinished foreign exchange contracts (1997: liabilities LVL 1,194,000).

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21. Related party transactions

Related parties are defined as shareholders, employees, members of the supervisory board, members of management board, their close relatives, and companies in which they have a controlling interest.

99.6% of the Bank's shares are owned by Moscow Business Bank (Russia).

In 1998 all transactions with related parties were performed within the boundaries of standard terms and notifications. Lending to, deposits, borrowings and guaranties from related parties during the period are set out below.

	1998	1997
	LVL'000	LVL'000
Deposits from Moscow Business Bank	6	336
Loan from Moscow Business Bank	-	325
Interest paid	5	13
Deposit in Moscow Business Bank	-	127
Loan to G. Dragiļevs, Chairman of the Management Board	3	-
Interest received	1	-
Assets and liabilities managed under the name of Moscow Business Bank	126	55

During 1998 LVL 325,000 of subordinated loan was transferred to share capital.

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22. Maturity analysis

The remaining period to maturity of assets and liabilities at 31 December 1998 was as follows:

	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	Over 1 year	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Assets					
Cash and balance due from Bank of Latvia	685	-	-	-	685
Due from other banks	791	-	-	-	791
Loans and advances to Customers	50	-	277	103	430
Investments in debt securities	-	692	-	-	692
Investments in equity securities	8	-	-	-	8
Accrued income and other short term assets	4	-	7	1	12
Fixed assets	-	-	-	191	191
Total assets	<u>1,538</u>	<u>692</u>	<u>284</u>	<u>295</u>	<u>2,809</u>
Liabilities					
Due to other banks	6	-	-	-	6
Current accounts	484	-	170	-	654
Accounts payable and Accrued liabilities	19	1	1	-	21
Other liabilities	-	5	-	-	5
Share capital	-	-	-	2,123	2,123
Total liabilities	<u>509</u>	<u>6</u>	<u>171</u>	<u>2,123</u>	<u>2,809</u>
Off-Balance Sheet commitments	-	-	6	-	6
Total liquidity position:					
On 31 December 1998	1,029	686	113	(1,828)	-
On 31 December 1997	400	6	594	(1,000)	-

23. Repricing maturity analysis

The Bank faces interest rate risk arising as a result of differences within maturates or interest re-fixing dates of respective interest sensitive assets and liabilities. The Bank seeks to control these risks through the activities of Treasury, Asset and Liabilities management. In the opinion of Management, the repricing maturity structure of assets and liabilities is not materially different from the contractual maturity structure of assets and liabilities set out in note 22 above.

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24. Currency analysis

The analysis of assets and liabilities denominated in foreign currencies is as follows:

	Latvian Lats LVL '000	US dollars LVL '000	Russian rubles LVL '000	Other currencies LVL '000	Total LVL '000
Assets					
Cash and balance due from Bank of Latvia	627	57	-	1	685
Due from other banks	402	306	18	65	791
Loans and advances to customers	305	125	-	-	430
Investments in debt securities	692	-	-	-	692
Investments in equity securities	8	-	-	-	8
Accrued income and other short term assets	12	-	-	-	12
Fixed assets	191	-	-	-	191
Total assets	<u>2,237</u>	<u>488</u>	<u>18</u>	<u>66</u>	<u>2,809</u>
Liabilities					
Due to other banks	-	6	-	-	6
Current accounts	265	369	18	4	656
Accounts payable and accrued liabilities	15	6	-	-	21
Other liabilities	-	3	-	-	3
Share capital	2,123	-	-	-	2,123
Total liabilities	<u>2,403</u>	<u>384</u>	<u>18</u>	<u>4</u>	<u>2,809</u>
Total foreign currency position:					
On 31 December 1998	166	104	-	62	
On 31 December 1997	(6)	(14)	(1)	9	

The total open position in foreign currencies formed 8% of share capital (1997: 2%)

According to "Law on credit institutions", the total open position of credit institutions in foreign currencies can not exceed 20% share capital. Thus the Bank complies with the requirements of Bank of Latvia regarding the limitation on open positions.

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25. Capital adequacy

Capital adequacy refers to the sufficiency of the Banks capital resources to cover the credit risks and similar risks arising from the portfolio of assets of the Bank and the off balance sheet exposures of the Bank. The capital adequacy ratio of the Bank according to the internationally recognised methodology of the Basle agreement was 421%, compared to the recommended minimum ratio of 8%. The capital adequacy ratio of the Bank according to the methodology of the Bank of Latvia was 381%, compared to the minimum ratio of 10% required by the Law on Credit Institutions. The Bank of Latvia's methodology for the calculation of capital adequacy ratio differs in several respects from that used under the Basle Agreement.

	Bank of Latvia				Basle			
	LVL' 000	Risk level	1998 Weighted assets LVL' 000	1997 Weighted assets LVL' 000	Risk level	1998 Weighted assets LVL' 000	1997 Weighted assets LVL' 000	
Assets								
Cash and balance due from Bank of Latvia	685	0%	-	-	0%	-		
Securities issued by Latvian government	692	0%	-	-	0%	-		
Securities issued by central governments of foreign countries	-	0%	-	-	20%	-	147	
Investments with fixed and non-fixed income	-	100%	-	314	20%	-	63	
Due from credit institutions in OECD area	303	20%	61	71	20%	61	71	
Due from credit institutions in Latvia	455		91	20	-	91	20	
<i>Claims on demand</i>	455	20%	91	20	20%	91	20	
<i>Other claims</i>	-	50%	-	-	-	-	-	
Due from credit institutions in non-OECD area	33	100%	33	546	-	7	129	
<i>Claims less than one year</i>	33				20%	7	129	
<i>Claims more than one year</i>	-		-	-	100%	-	-	
Loans and advances to customers	430		165	1		135	1	
<i>Loans secured with mortgage</i>	100	80%	80	-	50%	50	-	
<i>Loans guaranteed by term deposit</i>	167	0%	-	-	0%	-	-	
<i>Loans guaranteed by OECD credit institutions</i>	98	20%	20	-	20%	20	-	
<i>Other loans</i>	65	100%	65	1	100%	65	1	
Investments in shares	8	100%	1	40	100%	8	61	
Accrued income, prepayments	8	50%	4	3	50%	4	3	
Other assets	4	100%	4	11	100%	4	11	
Fixed assets	191	100%	191	213	100%	191	213	
Total weighted assets	2,809		550	1,219		501	699	
Due to clients	6	100%	6	-	50%	3	-	
Foreign exchange contracts			-	-		-	-	
Total weighted assets and liabilities			556	1,219		504	699	
Share capital								
1st tier capital	2,123		2,123	888		2,123	888	
2nd tier capital	-		-	325		-	325	
Investments in other credit institutions	(7)		(7)	(21)		-	-	
Total share capital	2,116		2,116	1,192		2,123	1,213	
Capital adequacy ratio			381%	98%		421%	174%	
Minimum capital adequacy ratio			10%	10%		8%	8%	