



JSC Latvian Business Bank

Annual report for 2000

JSC Latvian Business Bank
Annual Report for 2000

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1. Management report

The activities of JSC Latvian Business Bank ("the Bank") in 2000 were formulated under certain circumstances, including the strengthening of the Latvian banking system, an increase in the volume and share of foreign investment in Latvian banks, intensified competition between banks and an increasing of the requirements of the Bank of Latvia aimed at controlling banking risks and legal control of banking activities. During 2000, the Bank continued activities with the purpose of further developing its operations and expanding its client base:

- The share capital of the Bank was increased by receipt of subordinated capital from JSC "Moscow Municipal Bank - Bank of Moscow",
- The organizational structure of the Bank was improved by establishment of new departments - The International Accounts and Payments Department and The Trust Operations Department. A search continues for highly qualified personnel with special attention focused on customer service,
- The management systems and internal control standards data base, primarily in the areas of financial resource management and bank risk, have been improved,
- The Reuters Information and Reuters Dealing systems, which allowed the Bank to significantly increase the quality of its services at competitive prices, were implemented,
- The assortment of banking services offered were expanded and trust management of client financial resources were introduced,
- The improving of the Bank's correspondent network allowed the Bank to simultaneously increase the quality and speed of its payment operations while minimizing the expenses of maintaining the network,
- The technical foundation of the Bank's activities was upgraded especially in the areas of computer software and information technology,
- Throughout 2000, the Bank was preparing for its relocation to a new office in the prestigious, diplomatic and business centre of Riga, which occurred in February 2001. This was done for the convenience of and offering of better services to the Bank's clients. The new office is equipped in order to fulfil the demands of modern client service and banking technology, which in turn increases the Bank's attractiveness.
- All of the above mentioned activities were rooted in strategic plans aimed at developing the Bank as a daughter of the largest Russian bank with a branch network throughout the Russian Federation.

During 2000, the image and recognizability of the Bank has increased. According to data compiled by the Association of Commercial Banks in Latvia, Latvian Business Bank was among the top banks in terms of growth of basic financial indicators in the Latvian banking industry:

- The Bank's assets grew by 2.6 times during the past year and by 4 times during the past two years,
- The average balances on client accounts grew by 4.4 times during the fourth quarter of the year as compared to the first quarter of 2000. Also, the average balances on client accounts was higher by 2.6 times as compared to similar balances for the previous year,
- The turnover of client financial resources during 2000 exceeded 1999 turnover by 9 times,
- The active credit portfolio at 31 December 2000 exceeded the credit portfolio at 1 January 2000 by 4.4 times. The average amount of the credit portfolio during 2000 grew by 2.1 times as compared to 1999,
- During 2000, the Bank's revenue grew constantly: the 4th quarter increased by 29% as compared to the 3rd quarter, by 78% as compared to the 2nd quarter and by 84% as compared to the 1st quarter. Revenues for 2000 increased 1.9 times as compared to those in 1999.

During 2000, the Bank realized significant capital investments in the technological and personnel development of the bank. The Bank's activities during the whole of 2000 was profitable. Income for the year will be used to cover losses accumulated from the financial crisis in 1998.

The Bank uses moderately-conservative policies in its credit and fund activities. The Bank's credit portfolio was created on the basis of guarantees of liquidity and strict control over the borrower's solvency. The fund portfolio was founded on reliable and highly liquid securities. The Bank does not have long-term, doubtful investments in credit or financial instruments of zone "B" countries (except for Russian government obligations, which were restructured after the 1998 financial crisis and which total no more than 0.6% of the Bank's capital).

The Bank is continually optimizing its management system and daily control over banking risks keeping in mind the demands of the Bank of Latvia. During the course of audits conducted by both the Bank of Latvia

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and an international auditing company, the Bank did not receive any significant comments about the activities of the Bank nor the quality of its assets.

The financial condition of the Bank for a long period of time, including 2000, has been stable. The Bank has one of the highest indicators of liquidity and solvency in the Latvian banking industry.

The absence of a banking license from the Bank of Latvia for accepting deposits from private persons has limited the Bank's ability to attract additional customers and realize promising financial projects.

The Bank's strategy and operational plan for 2001 makes provision for its development primarily as a bank for small and medium businesses oriented towards import/export operations largely with Russia and Moscow and servicing of transit through Latvia, both east to west and vice versa.

The most important priority of the Bank is increasing the quality of services for clients and an individual approach to every client. On the basis of the Bank's new products and promising financial projects, taking advantage of the capabilities of The Bank of Moscow, the Bank is planning on increasing its assets by 80%.

In order to meet its plans for 2001, the Bank should realize the following important activities:

- Increase the Bank's share capital to 4.9 million LVL using the resources of JSC "Moscow Municipal Bank - Bank of Moscow".
- Meet the conditions for receipt of permission from the Bank of Latvia to accept deposits from private persons.
- Improve and develop the tactics and methods of attracting financial resources.
- Continue development and implementation of new technology for banking services, introduce competitive services, including documentary operations, bank checks, plastic cards and others,
- Continue expanding the spectrum and increase the quality of cash-settlement services, lending, operations with foreign currencies and securities, brokerage services with securities and trust operations.
- Finish implementation of INTERNET banking.
- Perform widespread advertising campaign of the Bank's product and services targeted at both current and potential clients.

The management of JSC Latvian Business Bank thanks its shareholders, clients and partners for their co-operation during 2000 and expresses its confidence in continued successful co-operation in the future.

The management of JSC Latvian Business Bank, in the name of all employees, gives its assurance that the Bank will do its best to meet the 2001 operational plan.

Vadim Trofimov
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board

26 March 2001

BOARD OF DIRECTORS

Georgij Dragilev	Chairman of the Board
Inna Skorohodova	Member of the Board
Alfred Silavs	Member of the Board
Natalija Kovaleva	Member of the Board
Jelena Kapitonova	Member of the Board
Natalija Aleksejeva	Candidate for Board Membership

Vadim Trofimov
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board

26 March 2001

SUPERVISORY COUNCIL

Vadim Trofimov	Chairman of the Supervisory Council	
Vladimir Jevstignejev	Deputy chairman of the Supervisory Council	
Vadim Halangot	Member of the Supervisory Council	
Dmitriy Akulinin	Member of the Supervisory Council	
Janis Dzervitis	Member of the Supervisory Council	
Janis Ozoliņš	Member of the Supervisory Council	
Aleksandr Gaponenko	Member of the Supervisory Council	
Alberts Paže	Candidate for Supervisory Council Membership (non-voting)	
Dmitriy Akulinin	Chairman of the Supervisory Council	Resigned from the position in 2000

Vadim Trofimov
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board

26 March 2001

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STATEMENT OF MANAGEMENT RESPONSIBILITY

The management is responsible for preparing the annual report from the books of prime entry of the Bank that present fairly the state of affairs of the Bank as at the end of the financial year and the results of its operations and cash flows for the year then ended.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the annual report on pages 9 to 25 for the year ended 31 December 2000. The management also confirms that applicable International Accounting Standards have been used on a going concern basis and comply with the Bank of Latvia Regulation on Annual Reports of Credit Institutions in all material respects.

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

This annual report was approved and signed on behalf of the Bank's Supervisory Council and the Board of Directors on 26 March 2001.

Vadim Trofimov
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board

26 March 2001

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Latvian Business Bank"

We have audited the accompanying balance sheet of JSC "Latvian Business Bank" (the "Bank") as of 31 December 2000 and the related statements of profit and loss, shareholders' equity and cash flows for the year ended 31 December 2000. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended 31 December 1999 were audited by other auditors whose report dated 28 March 2000 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our 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 as of 31 December 2000 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards and the reporting requirements of the Bank of Latvia.

Deloitte & Touche
Riga, Latvia

26 March 2001

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Statement of Profit and Loss

	Notes	2000 LVL '000	1999 LVL'000
Interest income	3	527	235
Interest expense	4	(141)	(22)
Net interest income		<u><u>386</u></u>	<u><u>213</u></u>
Commission income	5	115	57
Commission expense	6	(47)	(33)
Net profit arising from trading with securities and foreign exchange	7	45	38
Other operating income		9	8
Administrative expenses	8	(436)	(359)
Other operating expenses		(1)	-
Depreciation of property and equipment	16	(45)	(37)
Release of provisions	9	21	43
Profit (loss) before tax		47	(70)
Taxes	10	(3)	(2)
Net profit (loss) for the period		<u><u>44</u></u>	<u><u>(72)</u></u>

The accompanying notes are an integral part of this annual report

The annual report on pages 9 to 25 were approved by the Supervisory Council and the Board of Directors on 26 March 2001 and signed on the Bank's behalf by:

Georgij Dragilev
Chairman of the Board

Vadim Trofimov
Chairman of the Supervisory
Council

Jelena Kapitonova
Chief Accountant

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Balance Sheets and Off-Balance Sheet Items

	Notes	2000 LVL '000	1999 LVL'000
Assets			
Cash and balance due from the Bank of Latvia	11	330	775
Due from other credit institutions		3,520	2,482
<i>demand balances</i>	12	3,420	2,222
<i>other balances</i>	13	100	260
Loans and advances to customers, net	14	3,945	903
Investments in debt securities, net	15	490	308
Investments in equity securities		1	1
Property and equipment, net	16	425	245
Other assets		127	7
Accrued income and deferred expenses		92	10
Total assets		8,930	4,731
Assets under management	17	3,775	12
Total assets and assets under management		12,705	4,743
Liabilities			
Due to other credit institutions		728	2,190
<i>demand deposits</i>	18	385	7
<i>term deposits</i>	19	343	2,183
Current accounts		3,899	470
<i>demand deposits</i>	20	1,540	429
<i>term deposits</i>		2,359	41
Other liabilities		25	1
Accrued expenses and deferred income		99	19
Subordinated debt	24	2,084	-
Total liabilities		6,835	2,680
Shareholders' equity			
Share capital	22	3,000	3,000
Share premium		20	20
Legal reserves		58	58
Accumulated deficit		(983)	(1,027)
Total shareholders' equity		2,095	2,051
Total liabilities and shareholders' equity		8,930	4,731
Liabilities under management	17	3,775	12
Total liabilities, shareholders' equity and liabilities under management		12,705	4,743
Off- balance sheet commitments			
Off- balance sheet commitments	23	167	162
Total off balance sheet commitments		167	162

The accompanying notes are an integral part of this annual report.

The annual report on pages 9 to 25 were approved by the Supervisory Council and the Board of Directors on 26 March 2001 and signed on the Bank's behalf by:

Georgij Dragilev
Chairman of the Board

Vadim Trofimov
Chairman of the Supervisory
Council

Jelena Kapitonova
Chief Accountant

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Statements Of Changes In Shareholders' Equity

	Share Capital LVL'000	Share Premium LVL'000	Legal reserve LVL'000	Accumu- lated deficit LVL'000	Total LVL'000
At 31 December 1998	3,000	20	58	(955)	2,123
Net loss	-	-	-	(72)	(72)
At 31 December 1999	3,000	20	58	(1,027)	2,051
Net profit	-	-	-	44	44
At 31 December 2000	3,000	20	58	(983)	2,095

The accompanying notes are an integral part of this annual report.

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Statements Of Cash Flows

	Notes	2000 LVL'000	1999 LVL'000
Cash flow from operating activities			
Profit / (loss) before taxation		47	(70)
Depreciation and write-off of property and equipment		45	40
Foreign exchange losses		16	-
Profit from sales of fixed assets		(2)	-
Profit from revaluation of long term investments		(23)	-
Increase/(decrease) in accrued expenses and deferred income		80	(2)
Increase in accrued income and deferred expenses		(82)	(2)
Decrease in other assets		(120)	(3)
Increase/(decrease) in other liabilities		24	(2)
Cash flow from operating profits before changes in operating assets and liabilities		(15)	(39)
(Increase)/decrease in short-term investment		(203)	660
Decrease/(increase) in due from other credit institutions		260	(260)
Increase in loans		(3,042)	(473)
(Decrease)/increase in due to other credit institutions		(138)	195
Increase/(decrease) in deposits		3,429	(186)
Taxes paid		(3)	(2)
Net cash provided by/(used in) operating activities		288	(105)
Cash flow from investing activities			
Purchase of property and equipment, net		(223)	(94)
Purchase of long term investments, net		(225)	-
Net cash used in investing activities		(448)	(94)
Cash flow from financing activities			
Subordinated debt repayments		2,084	-
Net cash provided by financing activities		2,084	-
Cash and cash equivalents at the beginning of year	21	1,277	1,476
Net increase/(decrease) in cash and cash equivalents		1,924	(199)
Foreign currency loss		(16)	-
Cash and cash equivalents at end of year	21	3,185	1,277

The accompanying notes are an integral part of this annual report.

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Notes to the Annual Report

1. General information

Joint stock company "Latvian Business Bank" received its license from the Bank of Latvia on 18 May 1992.

The legal address of the Bank is 3 Mazā Pils Street, Riga, Latvia. Since 12 February 2001 the Bank is located at a new office at 3 Antonijas Street, Riga. The essential documents regarding the legal address change have been presented to the Bank of Latvia.

The operations performed by the Bank and its main types of activities are as follows:

- issuance of loans to corporate clients and individuals, leasing operations;
- performing operations related to issue, placement, purchase, sale and holding of shares, bonds and other securities;
- trust operations;
- foreign currency exchange, trading, as well on behalf of customers;
- attracting funds of corporate clients;
- corporate banking;
- correspondent banking;
- cash and non-cash payments;
- issue of warranties, guarantees and other documents confirming obligations;
- encashment operations.

2. Accounting methods

(1) Basis of preparation

The annual report has been prepared on the historical cost basis of accounting, in accordance with International Accounting Standards (IAS) and the Bank of Latvia Regulations On Annual Reports of Credit Institutions.

(2) Interest, Fees and Commissions

Interest income is recognised on the accrual basis. The Bank does not accrue interest income on loans overdue for ninety days.

Commissions, fees and other income are credited to income as 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. All assets and liabilities denominated in foreign currency, including commitments to deliver or acquire foreign currencies under spot exchange rates, 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:

	2000	1999
USD	0.613000	0.583000
RUB	0.021600	0.021300

All resulting gains and losses arising from dealing activities are recorded in the income statement in the period in which they occur.

(4) Loans

Loans in the annual report are reflected at principal outstanding less provisions 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 the financial situation and solvency of the loan holder, compliance with the terms set out in the agreement and collectability of the loan.

(5) Financial Statement Estimates

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and

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disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. However, actual results could differ from those estimates.

(6) Trade securities

Trade securities include shares quoted on the Latvian secondary market and the Riga Stock Exchange. Trade securities are reflected using the lower of cost or market value. All gains and losses realised and unrealised from trading securities are reported in the income statement.

(7) Investment securities

Investment securities include securities, which management of the Bank intends to hold until maturity and are stated at cost as adjusted for the amortisation of premiums and discounts on purchases over the period to maturity. Interest earned on investment securities is reported as interest income.

(8) Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation. If the recoverable amount of an asset is lower than its carrying amount, it is written down immediately to its recoverable amount.

Depreciation is calculated on the straight line method to write off the cost of each asset to their residual values over the expected useful lives as follows:

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

Gains and losses on disposal of property, plant and equipment are recognised in the income statement in the year of disposal.

(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 provided, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on property, plant and equipment. Deferred tax assets relating to the carryforward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Where an overall deferred taxation asset arises, this is only recognised in the annual report where its recoverability is foreseen with reasonable certainty.

(10) Cash and cash equivalents

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

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

(11) 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 book values, such fair values are separately disclosed in the notes to the accounts.

(12) Derivatives

Subsequent to initial recognition and measurement, receivables and payables arising from outstanding forward foreign exchange rate contracts are re-measured and carried in off-balance sheet accounts at the fair value.

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A gain or loss from a change in the fair value of receivables and payables arising from outstanding forward foreign exchange rate contracts which are not classified as hedging instruments are recognised in the statement of income as they arise.

A gain or loss from a change in the fair value of receivables and payables arising from outstanding forward foreign exchange rate contracts used for hedging purposes are deferred and recognised as income or expense on the same basis as the corresponding income or expense on the hedged position.

(13) New accounting standard

As of 1 January 2001, a new International Accounting Standard becomes effective, IAS 39 *Financial Instruments: Recognition and Measurement (Revised 1998)*. The new standard will significantly change the accounting treatment of end-user derivative and foreign exchange contracts used by the Bank and its customers. Depending on the underlying risk management strategy, these accounting changes could affect reported earnings, assets, liabilities and stockholders' equity. As a result, the Bank and the customers to which it provides derivatives and foreign exchange products will have to reconsider their risk management strategies, since the new standard will not reflect the results of many of those strategies in the same manner as current accounting practice. The Bank continues to evaluate the potential impact of implementing the new accounting standard, which will depend, among other things, on the possibility of additional amendments and interpretation of the standard.

3. Interest income

	2000 LVL'000	1999 LVL'000
On placements with other banks	216	50
On loans and advances to customers	276	120
On investments in CIS debt securities	9	-
On investments in Latvian debt securities	20	65
On investments in Latvian credit institutions' securities	4	-
On investments in other countries credit institutions securities	2	-
Total	<u><u>527</u></u>	<u><u>235</u></u>

4. Interest expense

	2000 LVL'000	1999 LVL'000
On current and term deposit accounts	114	17
On deposits and loans from other banks	27	5
Total	<u><u>141</u></u>	<u><u>22</u></u>

5. Commission income

	2000 LVL'000	1999 LVL'000
Commission income from services to residents	33	21
Commission income from services to non-residents	82	36
Total	<u><u>115</u></u>	<u><u>57</u></u>

6. Commission expense

	2000 LVL'000	1999 LVL'000
Commissions paid to resident banks	(5)	(2)
Commissions paid to non-resident banks	(28)	(21)
Accrued commission expenses	-	(2)
Commissions paid for services from non-residents	(14)	(8)
Total	<u><u>(47)</u></u>	<u><u>(33)</u></u>

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

	2000	1999
	LVL'000	LVL'000
Foreign exchange gain, net	45	37
<i>Trade with foreign currency</i>	61	37
<i>Revaluation of foreign currency</i>	(16)	-
Net gain arising from trading with securities	-	1
Total	45	38

8. Administrative expenses

	2000	1999
	LVL'000	LVL'000
Remuneration to management, board and staff	224	206
Social security payments	59	56
Communications	40	33
Reuters, Reuters Dealing	33	-
Professional fees	9	17
Transportation	3	4
Advertising and marketing	7	3
Other	61	40
Total	436	359

Salary and social security payments include employees' salaries, social security payments and other expenses. During the current accounting period, there were approximately 41 employees in the bank (1999-36) including members of the board - 5, management - 15, other employees - 21.

9. Movement in provisions

	Russian government bonds	Loans	Total
	LVL '000	LVL '000	LVL '000
31 December 1999	25	98	123
Release from provisions, securities restructured	(23)	-	(23)
Increase provisions for restructured securities	2	-	2
Foreign currency revaluation	(2)	-	(2)
Reversal of specific provision due to write-offs	-	(65)	(65)
31 December 2000	2	33	35

10. Taxes

	2000	1999
	LVL'000	LVL'000
Land and property tax	(3)	(2)

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Reconciliation between effective income tax rate expense and actual corporate tax expense

	2000	1999
	LVL'000	LVL'000
Loss before tax	(47)	(70)
Expected income tax expense (25%)	(12)	(18)
<u>Tax effect of:</u>		
Tax non-deductible expenses	(3)	2
Non-recognition of deferred tax asset	15	16
Tax charge	-	-

Deferred tax	2000	1999
	LVL'000	LVL'000
	Tax effect	Tax effect
	25%	25%
Temporary difference on depreciation of property, plant and equipment	(8)	(27)
Temporary difference on tax losses brought forward	57	283
Temporary difference on provisions	-	1
Temporary differences for which no deferred tax asset is recognised	(49)	(257)
Deferred tax	-	-

The Bank has reported a tax loss for 2000 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	Expiry
	LVL'000	Year
Tax loss reported for the financial year 1998	669	2003
Tax loss reported for the financial year 1999	115	2004
Total	784	

11. Cash and Bank

	2000	1999
	LVL'000	LVL'000
Cash	54	246
Balance on demand from Bank of Latvia	276	529
Total	330	775

The correspondent account with the Bank of Latvia is non-interest bearing.

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12. Due from other credit institutions on demand

	2000	1999
	LVL'000	LVL'000
Latvian credit institutions	4	-
Credit institutions of the OECD area	3,363	2,211
Credit institutions of non-OECD area	53	11
Total	3,420	2,222

13. Other balances due from other credit institutions

	2000	1999
	LVL'000	LVL'000
Term deposits in Latvian Unibank	100	64
Term deposits in Vereinsbank	-	180
Term deposits in Latvian Savings Bank	-	16
Total	100	260

14. Loans and advances to customers, net

	2000	1999
	LVL'000	LVL'000
Loans to enterprises, non-residents	2,390	-
Loans to enterprises, residents	1,210	604
Loans to private individuals, residents	378	397
Loans and advances to customers	3,978	1,001
Provisions for loan losses	(33)	(98)
Net loans and advances to customers	3,945	903

Loans to residents are covered by real estate, loans to non-resident enterprises are covered by deposits and Russian Federation corporate bonds.

Breakdown of loans, granted to enterprises by industry as follows:

	2000	1999
	LVL'000	LVL'000
Trade	586	131
Manufacturing	329	409
Transportation	8	2
Other services	287	62
Total commercial loans	1,210	604

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

	2000	1999
	LVL'000	LVL'000
Provision for loan losses as at beginning of the year	98	237
Release of provisions	-	(9)
Loans written-off	(65)	(130)
Provision for loan losses as at the year end	33	98

As at 31 December 2000 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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15. Investments in debt securities, net

	2000	1999
	LVL'000	LVL'000
Debt securities:		
Latvian treasury bills	69	308
Latvian credit institutions securities	300	-
Other countries' credit institution securities	102	-
Russian Federation government bonds	21	25
Specific provisions for Russian government bonds	(2)	(25)
Total	490	308

The unamortised discount of securities held by the Bank forms LVL 10 thousand (1999: LVL 4 thousand). The yield of the Bank's investment portfolio during 2000 was 6.5% per annum on average (1999: 4-11% per annum respectively). The Bank's investments are concentrated in Latvian and other countries credit institution bonds with an average rate – 7% per annum.

In January 2000, all Russian Federation government bonds held by the Bank were restructured.

The Bank received new Russian Federation fixed income bonds amounting to 90% of the total investment portfolio value and 10% as financial commitments. In February, 2001, all Russian Federation bonds were sold without significant gain and losses on these sales.

16. Property and equipment, net

	Construc- tion in progress	Vehicles	Office Equipment	Land and buildings	Total property and equipment
	LVL'000	LVL '000	LVL '000	LVL '000	LVL '000
Historical cost					
31 December 1998	-	19	147	147	313
Disposals	-	(8)	(10)	-	(18)
Additions	-	-	94	-	94
31 December 1999	-	11	231	147	389
Disposals	-	(11)	(3)	-	(14)
Additions	157	18	50	-	225
31 December 2000	157	18	278	147	600
Accumulated depreciation					
31 December 1998	-	16	99	7	122
Disposals	-	(7)	(8)	-	(15)
Calculated depreciation	-	2	29	6	37
31 December 1999	-	11	120	13	144
Disposals	-	(11)	(3)	-	(14)
Calculated depreciation	-	2	37	6	45
31 December 2000	-	2	154	19	175
Net book value					
31 December 1999	-	-	111	134	245
31 December 2000	157	16	124	128	425

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

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17. Assets and liabilities under management

The Bank, under trust, manages properties of its clients and earns commissions for this services. The Bank is not subject to credit and currency risks related to these transactions. The following properties are under the management of the Bank:

	2000 LVL'000	1999 LVL'000
Credit institutions non-resident liabilities under management	3,453	-
Enterprises non-resident liabilities under management	307	-
Russian Federation corporate bonds	15	12
Total	<u><u>3,775</u></u>	<u><u>12</u></u>

The securities above are reflected at their market price as at 31 December 2000 and 1999.

18. Due to other credit institutions demand balances

	2000 LVL'000	1999 LVL'000
Credit institutions of the OECD area	98	1
Credit institutions of non-OECD area	287	6
Total	<u><u>385</u></u>	<u><u>7</u></u>

19. Due to other credit institutions term balances

	2000 LVL'000	1999 LVL'000
Term balances of Fobos bank	280	-
Term balance of bank "Moscow-Minsk"	63	-
Term balances of Vereinsbank	-	143
Term balances of Latvian Unibanka	-	58
Term balances of Bank of Moscow	-	1,982
Total	<u><u>343</u></u>	<u><u>2,183</u></u>

20. Current accounts

	2000 LVL'000	1999 LVL'000
Private enterprises- residents	243	241
Private enterprises non-residents	1,290	186
Private individuals, social and religious organisations-residents	6	1
Private individuals, social and religious organisations non-residents	1	1
Total	<u><u>1,540</u></u>	<u><u>429</u></u>

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21. Cash and cash equivalents

	2000	1999
	LVL '000	LVL '000
Cash and demand deposits with the Bank of Latvia	330	775
Demand deposits with credit institutions	3,520	2,222
Latvian treasury bills	-	269
Due to other credit institutions demand balances	(385)	(7)
Due to Fobos Bank	(280)	-
Due to Bank of Moscow	-	(1,982)
Total	<u>3,185</u>	<u>1,277</u>

22. Share capital

The authorised, issued and paid share capital on 31 December 2000 is LVL 3,000,000, comprising of 60,000 ordinary shares with a per value of LVL 50 each.

In December 1999, the majority shareholder (99.6 %) JSCB "Mosbusinessbank", registered in Russia, signed an agreement with JSC "Moscow Municipal Bank - Bank of Moscow" about devolution of joint stock Latvian Business Bank's shares to JSC "Moscow Municipal Bank - Bank of Moscow".

23. Off-balance sheet items

The management of the Bank believes that there are no claims or commitments the Bank has entered in to which have not been taken into account in preparing this annual report.

	2000	1999
	LVL'000	LVL'000
Guarantees	34	-
Liabilities for dispensation of credit	102	11
Liabilities concerning currency exchange agreements	31	151
Total	<u>167</u>	<u>162</u>

24. Related party transactions

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

Lending to, deposits, borrowings and guarantees from related parties during the period are set out below.

	1999	Increase	Decrease	2000
	LVL '000	LVL '000	LVL '000	LVL '000
Loans to Board members	4	9	-	13
Interest received on loans	0.3	0.5	-	0.8
Remuneration to members of the board, Management and supervisory council	51	5	-	56
Social security payments	12	1	-	13
Deposits placed by shareholders	1,982	102	-	2,084

In 2000 shares of JSC "Moscow Municipal Bank – Bank of Moscow" were invested in the Bank as subordinated debt in the amount of LVL 2,084,020.

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25. Maturity analysis

The remaining period to maturity of assets and liabilities at 31 December 2000 was as follows:

	Up to 1 month	From 1 month to 3 month	From 3 month to 6 month	From 6 month to 1 year	Over 1 year and undated	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Assets						
Cash and balance due from Bank of Latvia	330	-	-	-	-	330
Due from other credit institutions	3,420	100	-	-	-	3,520
Loans to customers	21	37	214	446	3,227	3,945
Investments in debt securities	-	69	196	-	225	490
Investments in equity securities	1	-	-	-	-	1
Accrued income and other assets	131	80	-	-	8	219
Property and equipment	-	-	-	-	425	425
Assets under management	3,775	-	-	-	-	3,775
Total assets	7,678	286	410	446	3,885	12,705
Liabilities						
Due to other credit institutions	665	-	63	-	-	728
Deposits	1,541	3	-	34	2,321	3,899
Accrued expenses and deferred income	99	-	-	-	-	99
Other liabilities	25	-	-	-	-	25
Equity	-	-	-	-	2,095	2,095
Subordinated debt	-	-	-	-	2,084	2,084
Liabilities under management	3,775	-	-	-	-	3,775
Total liabilities	6,105	3	63	34	6,500	12,705
Due to clients	102	12	-	-	8	122*
Foreign exchange contracts	31	-	-	-	-	31
	133	12	-	-	8	153
Total liquidity position: On 31 December 2000	1,440	271	347	412	(2,623)	-

* excluding distributed guaranties, assured with term deposits in this credit institution for certain time.

26. Revaluation maturity analysis

The Bank faces interest rate risk arising as a result of differences between 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 re-pricing maturity structure of assets and liabilities is not materially different from the contractual maturity structure of assets and liabilities set out in note 25 above.

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27. Currency analysis

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

	LVL	USD	RUR	Other currencies	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Assets					
Cash and balance due from Bank of Latvia	308	17	-	5	330
Due from other credit institutions	101	3,213	47	159	3,520
Loans and advances to customers	777	3,168	-	-	3,945
Investments in bonds	471	-	19	-	490
Investments in shares	1	-	-	-	1
Accrued income and other assets	124	95	-	-	219
Fixed assets	425	-	-	-	425
Total assets	2,207	6,493	66	164	8,930
Liabilities					
Due to other credit institutions	-	728	-	-	728
Deposits	157	3,545	39	158	3,899
Accrued expenses and deferred income	14	85	-	-	99
Other liabilities	-	15	10	-	25
Subordinated debt	-	2,084	-	-	2,084
Share capital	2,095	-	-	-	2,095
Total liabilities	2,266	6,457	49	158	8,930
Due to clients	25	111	-	-	136
Foreign exchange contracts	-	31	-	-	31
On 31 December 2000		(106)	17	6	(83)

The total open position in foreign currencies formed 2.6 % of capital (1999: 0.4%)

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

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28. Geographical analysis of assets, liabilities and off-balance sheet items

	Latvia	OECD area	Non- OECD area	Total
	LVL '000	LVL '000	LVL '000	LVL '000
Assets				
Cash and balance due from Bank of Latvia	330	-	-	330
Due from other credit institutions	104	3,363	53	3,520
Loans and advances to customers	1,555	9	2,381	3,945
Investments in debt securities	369	102	19	490
Investments in equity securities	1	-	-	1
Accrued income and other assets	132	-	87	219
Property and equipment	425	-	-	425
Total assets	2,916	3,474	2,540	8,930
Liabilities				
Due to other credit institutions	-	98	630	728
Deposits	286	3,456	157	3,899
Accrued expenses and deferred income	99	-	-	99
Other liabilities	25	-	-	25
Subordinated debt	2,084	-	-	2,084
Total liabilities	2,494	3,554	787	6,835
Off-Balance Sheet commitments				
Due to clients	75	53	8	136
Foreign exchange contracts	31	-	-	31

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29. Capital adequacy

As of December 31, 2000, the capital adequacy ratio of the Bank according to the Basle Agreement methodology, was 100%. Under the Bank of Latvia's methodology for the calculation of capital adequacy, banks are required to keep a ratio of 10% of risk-weighted assets. The capital adequacy ratio of the Bank according to the Bank of Latvia methodology was 103%.

	Bank of Latvia		Basle		
	LVL'000	Risk level	2000 Weighted assets LVL'000	Risk level	2000 Weighted assets LVL'000
Assets					
Cash and balance due from Bank of Latvia	330	0%	-	0%	-
Securities issued by Latvian government	69	0%	-	0%	-
Due from credit institutions in OECD area	3,465	20%	693	20%	693
Due from credit institutions in Latvia	404		201		201
<i>Claims on demand</i>	4	20%	1	20%	1
<i>Other claims</i>	400	50%	200	50%	200
Due from credit institutions in non-OECD area	53		53		53
<i>Claims less than one year</i>	53	100%	53	100%	53
Due from central governments of Counties not in OECD area	19	50%	10	100%	19
Loans and advances to customers	4,034		1,476		1,565
<i>Loans secured with term deposits with fixed terms</i>	2,469	0%	-	0%	-
<i>Loans secured with mortgage secured in Land Register</i>	179	50%	90	100%	179
<i>Other loans</i>	1,386	100%	1,386	100%	1,386
Investments in shares	1	100%	1	100%	1
Accrued income and deferred expenses	3	50%	2	50%	2
Other assets	127	100%	127	100%	127
Property and equipment	425	100%	425	100%	425
Total weighted assets	8,930		2,988		3,086
Off balance sheet items	136		72		72
<i>Guarantees secured with term deposits with fixed terms</i>	13	0%	-	0%	-
<i>Loans commitments</i>	21	100%	21	100%	21
<i>Other liabilities</i>	102	50%	51	50%	51
Total weighted assets and liabilities	9,066		3,060		3,158
Equity					
1st tier capital	2,095		2,095		2,095
2nd tier capital	1,048		1,048		1,048
Not used 3 rd tier capital	2,084		2,084		2,084
Total equity	3,143		3,143		3,143
Capital adequacy ratio			103%		100%
Minimum capital adequacy ratio			10%		8%
Not used 3rd tier capital ratio			68%		66%
