

# financial galaxy





# constellation AB



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*From the left:*  
Ernests Bernis,  
Aleksandrs Bergmanis,  
Oļegs Fiļs

“The quality of services offered by the Bank depends on the quality of interactions between the different departments of the Bank and the conscientiousness of its employees”.

**Ernests Bernis**  
*Chairman of the Council*

“A solid and professional team – that’s the way our Customers see us.  
And as a team there is no goal we cannot achieve”.

**Aleksandrs Bergmanis**  
*Chairman of the Board*

“An individual approach to each customer, respect and a deep understanding of our Customers needs are the basis for continued stable business relations”.

**Oļegs Fiļs**  
*Deputy Chairman of the Board*

# Teamwork - it ensures success

Another year has passed in the history of the Bank. This year has been a year of great changes: the Bank is growing, the range of services offered is expanding.

The Bank gives more and more consideration to its activities on the Latvian market. Advantageous terms and conditions, a well-thought-out credit policy, a new deposit programme, the speed of our transactions and high quality services provide new opportunities for our Customers.

One of the strategically important directions of the Bank's activities is non-resident Customer service. As a result of successful operations of our International Division, the Bank is in the continuous process of attracting new Customers.

The majority of the Customers is served in Riga; consequently, at the Shareholders Meeting of the Bank it was decided to transfer the central office of the Bank from Aizkraukle to Riga, 23 Elizabetes street. This is also the address of the Bank's Riga branch.

In 2000, the new Council of the Bank has been approved. Ernests Bernis has been elected as the Chairman of the Council and Jānis Krīgers has become the Deputy Chairman.

The new Board of the Bank is made up of those people who have worked in the Bank for many years, are experts in the field of banking and sensitive to the needs of Customers. The Board of the Bank consists of six members and one candidate as follows: the Chairman of the Board is Aleksandrs Bergmanis, the Deputy Chairman of the Board is Oļegs Fiļs, the Board Members are Pāvels Šnejersons, Aleksandrs Pāže, Zane Kurzemniece and Aivars Rauska. Māris Kannenieks is the candidate for the Member of the Board.

It is our pleasure to state that during 1999 JSC Aizkraukles Banka assets increased by 43.4%, outstanding loans and advances to non-banking customers increased by 86.3%, and deposits attracted by 65.3%. This data, and the fact that the international audit firm "Arthur Andersen" expressed an unqualified opinion on the Bank's financial position, are evidence of the successful activities of the Bank in 1999. The net operating income of the Bank was 4.77 million lats. Administrative and other operating expenses were 1.71 million lats. The specific provision established in the amount of 3.58 million lats, including 2.89 million lats established for Ukrainian government bonds based on the estimate of their fair value. As a result, net loss for 1999 totalled 575 thousands lats.

Last year, the Bank started a new deposit programme and enlarged the Credit Department; our credit policy became more advantageous for our Customers. We expanded the net of correspondent banks and developed and introduced the "Internet Banking" software suite.

This year alongside the existing credit cards *Eurocard/MasterCard*, settlement cards *American Express* and *Maestro*, we will offer *VISA* and *VISA Electron* international settlement cards to our Customers.

In 2000, the international audit firm "Deloitte&Touche Tohmatsu" will be the auditors of the Bank.

In the year 2000, the Bank is planning to increase its assets by 23.6%, loans and advances issued by 89.4%, deposits attracted by 14.3% and the shareholders' equity by 61.3%. JSC Aizkraukles Banka is planning to end the year 2000 with a profit of 2.79 million lats.



*From the left:*  
Pāvels Šnejersons,  
Aivars Rauska

"During the second half of next year we plan to offer factoring more actively; this is a new way of crediting which was introduced last year".

**Pāvels Šnejersons**  
Director of Riga branch

"In the year 2000 we plan to put our main effort into attracting new Customers. We will come closer to our current and prospective Customers by opening a number of new clearing units".

**Aivars Rauska**  
Deputy Director of Riga branch

# New ideas - new markets

As a result of the decisions taken by JSC Aizkraukles Banka in 1997 and 1998 to expand the activities of the Riga branch, in the last financial year the Bank's activities in the local market have increased considerably. At the beginning of 1999, the outstanding loans issued to the Latvian corporates amounted to 2.68 million lats, by the end of the year reaching 3.22 million lats. The increased demand for loans reflects the systematic growth of our corporate customer base.

As usual, one of the priorities of the Bank during the last year was the servicing and financing of distributors, especially importers.

The Bank's specialization in international transactions enables us to offer our Customers not only loans for financing of current assets and working capital financing, but also the most advantageous conditions for foreign currency transfers, currency exchange and documentary payments.

The Bank has also diversified its loan portfolio through crediting of retail trading companies, as well as undertaking specific production and service projects. Taking into consideration Customers' needs, in 1999 the Bank diversified the types of loans defining conditions of security, maturity and purpose.

However, the credit policy of the Bank is based on prudence above everything else, and stringent requirements for the allocation of resources have been maintained. The result of this policy has been the improved quality of the credit portfolio. The specific provision for possible credit losses decreased from 19.6% to 6.0% of gross loans and advances to non-banking Customers.

In 2000, the Bank plans to increase the distribution of the settlement cards *Eurocard/MasterCard*, *VISA* and *Maestro* in order to increase the amount of consumer loans issued.

In 1999, the Bank was actively engaged in offering loans to private Customers, particularly in the area of mortgages and consumer loans secured by the pledge of movables. During the year, the amount of loans issued to private Customers almost tripled and

reached 2.97 million lats (the balance as at 31 December, 1998 was 0.99 million lats).

The rate of growth of the loan portfolio in this sector considerably exceeded the average performance for the industry (in 1999, growth was 47.3%). At the end of the year, the consolidated balance sheet of all the Latvian credit institutions including loans to private Customers amounted to 94.61 million lats. JSC Aizkraukles Banka share in this market has increased to 3.14% that is more than the Bank's share in the total loan portfolio of Latvian banks (0.95% from amount of loans issued to Latvian residents). Our achievements are based on our expertise and experience in the area of lending.

There has also been a significant increase in the volume of off-balance transactions, i.e. various kinds of guarantees and letters of credit. The evidence of this fact is the fivefold increase in the amount of guarantees and letters of credit issued by the Bank's Riga branch in comparison with 1998.

In order to make the services of the Bank more accessible, the Riga branch opened two centres at the end of 1999; one was the "Imanta" Clearing Unit and the other was the Mortgage and Loan Centre.

The aim of the Clearing Unit is to facilitate the processing of payments for distributors. The Mortgage and Loan Centre is specifically for the use of private Customers.

To provide the Customers of the Riga branch of the Bank with all necessary financial services we will continue to develop existing services as well as introduce new ones. We plan to increase our corporate Customer loan portfolio by 41.0%.

We foresee the year 2000 as one which will bring considerable development in the real estate market and the privatisation of apartments.

As the potential market for reliable mortgages grows, we forecast the growth of this loan portfolio sector by 90.0%. Additionally, we plan to increase the Bank's market share in this sector by financing construction projects.



*From the left:*  
Zane Kurzemniece,  
Aleksandrs Pāže

"The Bank carries out over 10 000 transactions daily. Strict internal accounting and control procedures are the key elements in the development of a modern and reputable Bank".

**Zane Kurzemniece**  
Head of Operations Division

"The main advantage of our Bank is its employees – young, energetic, with excellent education, knowledge of foreign languages and good competence in banking".

**Aleksandrs Pāže**  
Head of Administrative and Legal Division

# A matter of cooperation

The potential of Bank employees, team spirit and the ability of its Management to ensure full control over financial activities predetermine the further expansion of the Bank in 2000.

The personnel policy of the Bank remains unchanged; we carefully select a combination of experienced staff and promising young people to work with Customers, train them and provide them with opportunities to show their teamwork capabilities.

The main role in the development of the Bank belongs to the coordinated teamwork. Just being the team, we are able to achieve the desirable results. Our goal is to increase efficiency of the Bank's activity and provide a higher quality of servicing.

The Bank calling card is its employees' ability to become absorbed in Customers' problems, to find an individual approach for each Customer and to be flexible in our search for decisions. That is the only way for us to win our Customers' trust.

The main task of the Administrative and Legal Division is to ensure that the development of the activities of the Bank meets all the legal demands imposed on it, as well as ensuring that all transactions enacted by the Bank are carried out in an undisputably legal manner.

In order to minimize the risk contained in the operations of the Bank, it is necessary to keep possible losses within the planned limits.

In addition to the operations where the Bank is acting in as a counterpart, the Administrative and Legal Division also controls the Bank's internal and external activities. The importance of its vast array of functions has ensured that the Administrative and Legal Division holds an important place among other Divisions of the Bank.

Complete and legally appropriate accounting is not the only function of the Bank's Operations Division. Another, no less important, function of this Division is the analysis of accounting data that provides payment planning and control, as well as the efficiency of the Bank activities confirmed by specific figures. The feedback function gives an opportunity to evaluate thoroughly the financial procedures of the Bank and is an essential instrument in the process of managing the Bank.

Although the employees of the Bank's Operations Division do not work with the Customers every day, it is in their competence to carry out operations quickly and correctly, as well as to ensure the Bank's good reputation.

In the process of the Bank's development, the quantity and volume of the operations are continuously increasing. Therefore, in 2000, the main task of the Bank's Operations Division consists in revision and optimization of the financial accounting and control procedures in order to provide the control of transactions and more rapid data processing.



*From the left:*  
Oļegs Sirotns,  
Staņislavs Zabrockis

"Our work is based on the mutual trust and absolute confidentiality of information given by the Customers".

A handwritten signature in white ink on a dark blue background.

**Oļegs Sirotns**  
International Division  
Head of Customer Service Department

"We are proud of our Customers' achievements and we are proud to make a contribution to these achievements".

A handwritten signature in white ink on a dark blue background.

**Staņislavs Zabrockis**  
International Division  
Head of New Accounts Department

# Trust and risk in balance

In 1999, the major focus of the Bank's activities was attracting new Customers. As a result, the number of corporate and personal accounts opened in the Bank exceeded 10 000.

In the second half of 1999, Customers of the Bank were offered a carefully developed deposit programme; during 1999, the amount of non-resident Customers' deposits increased by 21.0 million lats and by the end of the year had reached 51.2 million lats.

A new series of the Bank's terms and conditions were approved by the Board of the Bank in May 1999; they offered Customers a more convenient and advantageous system of foreign currency transfers. In 1999, the system of correspondent accounts was optimized, enabling the Bank to reduce the cost of payments and to minimize the risks associated with the transfers to a given credit institution and the country of destination.

In respect of the work done on the Eastern market, the Bank opened a new Division. The International Division consists of various units including the New Accounts Department and the Customer Service Department specifically aimed at helping the Customers in their business in the Eastern markets.

An undoubted advantage, that the Bank holds, is the way it treats information received from and given to its Customers. This information is treated in absolute confidentiality and this hallmark of confidentiality is the foundation of the Bank's operations.

The Bank offers the most modern equipment and facilities for the Customers to service their accounts. The Bank offers fax modem and Internet facilities to

the Customers as methods of servicing and communicating in respect of their accounts. The Bank also pays great attention to aspects of information and data protection and confidentiality in the way that it handles all transactions with its Customers.

Customers have already seen the advantages of working with the software "Bank – Customer", the "Internet Banking" software suite.

The Bank places two personal managers at the disposal of each Customer. These managers are always ready to provide advice regarding work with the Bank, and to escort operations handled by the Customer from the moment of receiving instructions up to their execution.

In the year 2000, because of the increasing volume in operations, the Bank is planning to enlarge the International Division, particularly, the New Accounts Department.

As always, we will concentrate our attention on improving the skills of our employees and providing additional training for our staff. Amongst the Bank's future plans there are the development and improvement of the "Internet Banking" software suite.

One of the most significant concepts of the Bank's strategy is the further development of its Customer base and the expansion of the range of services in order to supply the Bank's Customers with all possible financial facilities.

In the year 2000, alongside the existing credit cards *Eurocard/MasterCard*, settlement cards *American Express* and *Maestro*, we will offer *VISA* and *VISA Electron* international settlement cards to our Customers.

We are absolutely sure that if you have decided to become a Customer of JSC Aizkraukles Banka you will never have reason to regret it.



*From the left:*  
Dmitrijs Belousovs,  
Andris Banders,  
Māris Kannenieks

"An efficient investment policy and the experience and professionalism of our employees' significantly strengthen the Bank's international reputation. Customers view us more as a high-principled strategic partner".

**Dmitrijs Belousovs**

*International Division*

*Head of Financial Institutions Department*

"The gross volume of currency operations undertaken by the Division of Financial Markets exceeded USD 200 million per month in the 1999".

**Māris Kannenieks**

*Financial Markets Division*

*Head of Dealing Department*

"The Securities Department focused its main effort towards the financial markets of the OECD – countries and the total investment at the end of 1999 amounted to 17.76 million lats".

**Andris Banders**

*Financial Markets Division*

*Head of Capital Markets Department*

# Safeguarding your interest

During 1999, the Financial Institutions Department was actively optimizing the network of the Bank's correspondent accounts.

With the introduction of the common European currency – the Euro – all the necessary preconditions for decreasing correspondent accounts opened in national currencies of EMS member-countries have been created, and the Bank carried out a reappraisal of relations with many correspondent banks.

The main criterion for the evaluation was the possibility to minimize costs in international transactions and a real possibility of gaining access to markets hitherto unexplored, as well as cooperation in trading on the *Forex* and the *Money Market*.

In the countries of the CIS, the process of optimizing correspondent accounts was carried out in strict accordance with the guidelines regarding the acceptability of risk within particular countries and the level of credit risk involved in dealing with a partner bank.

In the year 2000, the Bank is planning to increase the number of the existing credit lines and to search for new prospective partners in the sphere of international finances. The Bank pays specific attention to the efficiency of its financial transactions – reducing cost value and increasing profitability. The Bank intends to expand considerably the service range offered to our Customers on various currency markets; we intend to offer not only traditional foreign currency transactions but also other financial instruments such as *swap* and *forward*.

As one of the leading banks in the currency markets of CIS countries, the Bank is simultaneously developing its activities on the hard convertible currency markets, providing its Customers with the most advantageous conditions of currency exchange.

In 2000, the Bank is planning the further development of risk management, particularly with regard to correspondent banks and partner banks in Western European countries, the USA and CIS countries.

Last year the Bank worked hard in the sphere of documentary business. The growing number and volume of such operations is the evidence of the prospects and importance of export-import transactions for our Customers.

The Capital Markets Department activity during 1999 was mainly focused on the financial markets of OECD countries. The Bank has developed out a new policy on investments in securities, the basic principle of which is the reduction of investment risk and investment diversification. The best results have been achieved in risk arbitrage operations. In 1999, the total investments in bonds and securities amounted to 17.76 million lats.

In the next financial year, the Capital Markets Department will offer its Customers a brokerage service and a trust management service. Unlike those international financial companies dealing solely with major investments, the employees of JSC Aizkraukles Banka Capital Markets Department will work, share their experience and give fair advice in respect of financial investments to the Bank's Customers whose financial resources do not extend to scores of million of dollars.



# Financial Statements

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## MANAGEMENT REPORT

The Joint Stock Company Aizkraukles Banka (hereinafter – the Bank) has completed its sixth year of operations that in the Bank's history will be marked as a year of intensive and serious work. The evidence for that is the Bank ability to maintain its stability and competitiveness in the Latvian banking sector and following its operational strategy the Bank strengthened and constantly increased the market share served by the Bank, achieved a stable position among the top ten banks in Latvia and offered its Customers additional services, actively proceeding with the improvements in the range of services offered and modernising and diversifying the service distribution technologies.

In its development, the Bank has always attempted to balance the maximum profitability and the interests of its Customers. The suitability of such orientation has been proven by a constant increase in the number of both corporate and retail Customers. The high-level professionalism and the ability to fulfil perfectly Customer orders assisted the Bank to create an image of a trusted financial partner. This is strongly evidenced by the increase of long-term deposits, which is the best indication of the trust shown by the Customers.

The Bank proceeded with the implementation of a versatile development strategy and tried to meet the needs of Customers of all categories.

During the reporting year, the Bank commenced the establishment of a Clearing Unit network by opening the sub-branch Imanta which mainly focuses on servicing wholesalers and the Mortgage and Loan Centre which deals with granting loans to private Customers against real estate collateral.

As part of the lending activities, the Bank continued to finance Customer trading activities through provision of commenced to offer factoring advances against trade receivable collateral. A significant part of the Bank's loan portfolio is comprised of loans to private Customers against real estate collateral.

During the reporting year, a considerable growth was also achieved in other areas. In comparison to prior year, there has been a substantial increase in letters of credit and guarantees issued, as well as foreign exchange transactions performed. We are glad to note the considerable increase of the local Customer base and, consequently, the growth of local money transfers. The Bank extensively introduced new models of the relationship between the Customer and the Bank aimed at a closing of the interests through offering the Customers specific business management services.

Summarising the results of the reporting year, it should be noted that despite incurred losses in the amount of 575,483 thousands lats the Bank has maintained and continues to maintain a very high liquidity ratio – 77.0%.

Aizkraukle, 21 March 2000

Chairman of the Council



Jānis Krigers

Chairman of the Board



Aleksandrs Bergmanis

## MANAGEMENT OF THE BANK

The Council of the Bank consists of five members and one candidate as follows:

Chairman of the Council:

**Jānis Krīgers**

Deputy Chairperson of the Council:

**Zane Kurzemniece**

Chief Accountant of Riga branch

Members of the Council:

**Aleksandrs Pāže**

Head of Legal Department of Riga branch

**Pāvels Šnejersons**

Head of Credit Department of Riga branch

**Tatjana Rudziša**

Head of Credit Department

Candidate:

**Dmitrijs Belousovs**

Head of Correspondent Relations of Riga branch

On 19 March 1999, the annual General Assembly of shareholders removed Anna Ambulte from the position of the Council candidate and appointed Dmitrijs Belousovs as a candidate of the Council. During the reporting period up to the date of signing these financial statements, there have been no other changes in the members of the Council of the Bank.

The Board of Directors of the Bank consists of three members and one candidate as follows:

Chairman of the Board of Directors:

**Aleksandrs Bergmanis**

Deputy Chairman of the Board of Directors:

**Ernests Bernis**

Director of Riga branch

**Oļegs Fijs**

Deputy Director of Riga branch

Candidate:

**Tatjana Lukjaņuka**

Chief Accountant

During the reporting period up to the date of signing these financial statements, there were no changes in the members of the Board of Directors of the Bank.

Aizkraukle, 21 March 2000

Chairman of the Council

Jānis Krīgers

Chairman of the Board

Aleksandrs Bergmanis

## STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of the Bank are responsible for the preparation of the financial statements of the Bank. The financial statements are prepared in compliance with requirements of the Law on Credit Institutions, regulations of the Bank of Latvia and other legislation of the Republic of Latvia applicable for credit institutions.

The financial statements on pages 17 to 34 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 1999 and 1998, and the results of its operations, changes in the shareholders' equity and cash flows for the years then ended.

The financial statements are prepared in accordance with International Accounting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of the Bank are responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank.

Aizkraukle, 21 March 2000

Chairman of the Council



Jānis Krīgers

Chairman of the Board



Aleksandrs Bergmanis

## STATEMENTS OF INCOME

FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998 (LVL)

|   | Notes    | 1999             | 1998               |
|---|----------|------------------|--------------------|
| Interest income   | 3        | 3,134,708        | 4,453,497          |
| Interest expense  | 3        | (1,087,609)      | (980,958)          |
| <b>Net interest income</b>                                    |          | <b>2,047,099</b> | <b>3,472,539</b>   |
| Dividends received  |          | 13,520           | 4,661              |
| Commission and fee income                                     | 4        | 2,332,267        | 2,153,504          |
| Commission and fee expense                                    | 4        | (646,974)        | (763,222)          |
| <b>Net commission and fee income</b>                          |          | <b>1,685,293</b> | <b>1,390,282</b>   |
| Profit/(loss) on securities trading and foreign exchange, net | 5        | 995,957          | (4,087,054)        |
| Other operating income  | 6        | 26,706           | 67,177             |
| <b>Net operating income</b>                                   |          | <b>4,768,575</b> | <b>847,605</b>     |
| Administrative expense  | 7        | (1,391,436)      | (1,563,017)        |
| Amortisation and depreciation charge                          | 16       | (317,898)        | (532,770)          |
| Other operating expense                                       |          | (4,674)          | -                  |
| Provision expense for possible credit losses                  | 8        | (3,766,682)      | (3,550,674)        |
| Release of previously established provision                   | 8        | 186,794          | 67,382             |
| <b>Profit/(loss) before taxation</b>                          |          | <b>(525,321)</b> | <b>(4,731,474)</b> |
| Taxes   |          | (50,162)         | (46,344)           |
| <b>Net profit/(loss) for the year</b>                         | <b>9</b> | <b>(575,483)</b> | <b>(4,777,818)</b> |
| That is transferred to retained earnings/(deficit)            |          | (575,483)        | (4,777,818)        |

Aizkraukle, 21 March 2000

Chairman of the Council



Jānis Krīgers

Chairman of the Board



Aleksandrs Bergmanis

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

**BALANCE SHEETS AND MEMORANDUM ITEMS AS AT 31 DECEMBER 1999 AND 1998 (LVL)**

| <b>Assets</b>  | <b>Notes</b> | <b>31/12/99</b>   | <b>31/12/98</b>   |
|--|--------------|-------------------|-------------------|
| Cash and deposits with the Bank of Latvia  | 10           | 5,914,723         | 3,267,742         |
| Balances due from credit institutions  | 11           | 26,583,813        | 24,398,250        |
| Demand deposits  |              | 12,367,375        | 11,440,121        |
| Other balances   |              | 14,216,438        | 12,958,129        |
| Loans and advances to non-banking customers  | 12           | 9,440,495         | 5,068,376         |
| Treasury bills and other fixed income securities                                   | 13           | 17,756,982        | 9,747,949         |
| Shares and other non-fixed income securities                                       | 14           | 1,132,078         | 92,374            |
| Investments in associated entities   | 15           | 93,834            | -                 |
| Investments in subsidiaries  | 15           | -                 | 2,900             |
| Intangible fixed assets  | 16           | 160               | 320               |
| Tangible fixed assets  | 16           | 2,631,863         | 2,571,061         |
| Other assets   | 17           | 225,128           | 184,108           |
| Prepayments and accrued income   | 18           | 1,375,732         | 94,655            |
| <b>Total assets</b>  |              | <b>65,154,808</b> | <b>45,427,735</b> |
| Funds under trust management   | 25           | 229,933           | 320,240           |
| <b>Total assets and funds under trust management</b>                               |              | <b>65,384,741</b> | <b>45,747,975</b> |
| <b>Liabilities and shareholders' equity</b>  |              |                   |                   |
| Balances due to credit institutions  | 19           | 6,209,073         | 7,075,350         |
| Demand deposits  |              | 5,705,244         | 1,849,915         |
| Term deposits and other deposits   |              | 503,829           | 5,225,435         |
| Deposits from the public   | 20           | 53,814,330        | 32,554,521        |
| Demand deposits  |              | 43,728,257        | 30,426,273        |
| Term deposits  |              | 10,086,073        | 2,128,248         |
| Other liabilities  | 21           | 263,211           | 402,785           |
| Deferred income and accrued expense  | 22           | 257,883           | 226,543           |
| Provisions for liabilities and charges   | 23           | 48,753            | 31,495            |
| Shareholders' equity   |              | 4,561,558         | 5,137,041         |
| Paid-in share capital  | 26           | 5,000,000         | 5,000,000         |
| Share premium  |              | 254,676           | 254,676           |
| Legal and other reserves   |              | 1,001,790         | 1,001,790         |
| Unappropriated retained earnings/(deficit) for prior years                         |              | (1,119,425)       | 3,658,393         |
| Unappropriated (deficit) for the reporting year                                    |              | (575,483)         | (4,777,818)       |
| <b>Total liabilities and shareholders' equity</b>                                  |              | <b>65,154,808</b> | <b>45,427,735</b> |
| Funds under trust management   | 25           | 229,933           | 320,240           |
| <b>Total liabilities and shareholders' equity and funds under trust management</b> |              | <b>65,384,741</b> | <b>45,747,975</b> |
| <b>Memorandum items</b>  |              |                   |                   |
| Contingent liabilities   | 24           | 1,675,497         | 333,547           |
| Financial commitments  | 24           | 1,966,633         | 939,131           |
| Foreign exchange transactions, net   | 24           | 210,721           | -                 |

Aizkraukle, 21 March 2000

Chairman of the Council



Jānis Krigers

Chairman of the Board



Aleksandrs Bergmanis

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998 (LVL)

|                               | Paid-in<br>share capital | Share<br>premium | Legal and<br>other reserves | Retained earnings<br>earnings/(deficit) | Total share-<br>holders' equity |
|-------------------------------|--------------------------|------------------|-----------------------------|---|---------------------------------|
| <b>As at 1 January 1998</b>   | <b>5,000,000</b>         | <b>254,676</b>   | <b>1,001,790</b>            | <b>3,658,393</b>                        | <b>9,914,859</b>                |
| Net loss for the year         | -                        | -                | -                           | (4,777,818)                             | (4,777,818)                     |
| <b>As at 31 December 1998</b> | <b>5,000,000</b>         | <b>254,676</b>   | <b>1,001,790</b>            | <b>(1,119,425)</b>                      | <b>5,137,041</b>                |
| Net loss for the year         | -                        | -                | -                           | (575,483)                               | (575,483)                       |
| <b>As at 31 December 1999</b> | <b>5,000,000</b>         | <b>254,676</b>   | <b>1,001,790</b>            | <b>(1,694,908)</b>                      | <b>4,561,558</b>                |

**STATEMENTS OF CASH FLOWS** FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998 (LVL)

|  | 31/12/99            | 31/12/98           |
|--|---------------------|--------------------|
| <b>Cash inflow/(outflow) from operating activities</b>   |                     |                    |
| Profit/(loss) before taxation  | (525,321)           | (4,731,474)        |
| Amortisation and depreciation of intangible and tangible fixed assets and their write-offs   | 317,898             | 540,728            |
| Increase/(decrease) in provision for possible credit losses  | 3,562,684           | 3,434,323          |
| (Profit)/loss from revaluation of foreign currency   | (29,093)            | 5,308,259          |
| (Profit)/loss from sale of tangible fixed assets   | -                   | (6,396)            |
| (Increase)/decrease in other assets  | (41,020)            | 401,885            |
| (Increase)/decrease in prepayments and accrued income  | (1,282,939)         | (15,751)           |
| Increase/(decrease) in other liabilities   | (139,574)           | (2,424,972)        |
| Increase/(decrease) in deferred income and accrued expense   | 31,340              | 171,481            |
| Increase/(decrease) in provisions for liabilities and charges  | 17,503              | 30,060             |
| <b>Increase/(decrease) in cash and cash equivalents before changes<br/>in assets and liabilities, as a result of ordinary operations</b> | <b>16,028,174</b>   | <b>(4,327,056)</b> |
| (Increase)/decrease in short-term investments  | (1,013,495)         | 6,583,568          |
| (Increase)/decrease in balances due from credit institutions   | 3,044,873           | (4,989,429)        |
| (Increase)/decrease in loans and advances to non-banking customers   | (4,452,885)         | 251,102            |
| Increase/(decrease) in balances due to credit institutions   | (4,721,606)         | 2,712,635          |
| Increase/(decrease) in deposits from the public  | 21,259,809          | (11,593,075)       |
| <b>Increase/(decrease) in cash and cash equivalents from operating activities<br/>(Taxation)</b>   | <b>(50,162)</b>     | <b>(192,182)</b>   |
| <b>Cash inflow/(outflow) from investing activities</b>   |                     |                    |
| <b>(Purchase) of fixed assets, net</b>   | <b>(392,448)</b>    | <b>(1,621,081)</b> |
| Sale/(purchase) of equity investments in subsidiaries and other long-term investments  | (11,102,088)        | 94,984             |
| Sale of fixed assets   | 13,908              | 11,576             |
| <b>Increase/(decrease) in cash and cash equivalents<br/>from investment activities</b>   | <b>(11,480,628)</b> | <b>(1,514,521)</b> |
| <b>Cash inflow/(outflow) from financing activities</b>   |                     |                    |
| Dividends paid   | (245)               | (498,565)          |
| <b>Increase/(decrease) in cash and cash equivalents from financing activities</b>  | <b>(245)</b>        | <b>(498,565)</b>   |
| <b>Increase/(decrease) in cash and cash equivalents</b>  | <b>4,497,139</b>    | <b>(6,532,324)</b> |
| <b>Cash and cash equivalents at the beginning of the year</b>  | <b>21,390,510</b>   | <b>33,231,093</b>  |
| <b>Profit/(loss) from revaluation of foreign currency</b>  | <b>29,093</b>       | <b>(5,308,259)</b> |
| <b>Cash and cash equivalents at the end of the year</b>  | <b>25,916,742</b>   | <b>21,390,510</b>  |

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

(Figures in parenthesis represents figures as at 31 December 1998, unless otherwise stated).

A/s Aizkraukles banka (hereinafter - the Bank) was registered in Aizkraukle, the Republic of Latvia, on 17 September 1993, as a joint stock company. The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia.

The Bank has branches in Riga and Jēkabpils and two sub-branches in Riga. The main activities of the Bank are granting loans, money transfers and foreign exchange transactions. The licence granted to the Bank permits the performance of all banking operations as provided under the Law on Credit Institutions, except for accepting new funds under trust management and prolonging existing trust agreements as disclosed in Note 25.

### 2. ACCOUNTING POLICIES

A summary of the principal accounting policies all of which have been applied consistently (unless otherwise stated) throughout the years ended 31 December 1999 and 1998, is set out below:

#### a) Reporting Currency

The accompanying financial statements are reported in lats (LVL), unless otherwise stated.

#### b) Basis of Accounting

These financial statements are based on the statutory records, which are maintained under the historical cost convention, modified for revaluation as disclosed below, with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS and the stipulations of the Bank of Latvia.

#### c) Basis of Presentation

The financial statements are presented in accordance with International Accounting Standards and the Instructions on the Presentation of Financial Statements of Credit Institutions passed by the Bank of Latvia.

#### d) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis. No interest income is recognised on non-performing loans and advances (see paragraph j). Recognition of interest income is suspended at the time when there appears uncertainty as to the recoverability of principle or interest of a particular loan. The accrued interest receivable is provided for since the moment when the interest recognition is suspended.

#### e) Provision for Employee Holiday Pay

The provision for employee holiday pay is estimated for the Bank's personnel based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense pursuant to the Republic of Latvia Labour Code and related social insurance contributions.

#### f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at actual rates of exchange set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange set forth by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (LVL for 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows:

| Reporting date   | USD   | RUB    | EUR      |
|------------------|-------|--------|----------|
| 31 December 1999 | 0.583 | 0.0213 | 0.587516 |
| 31 December 1998 | 0.569 | 0.0267 | -        |

#### g) Corporate income tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 25% and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the timing differences reverse. The principal timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets, and tax losses carried forward.

#### h) Loans and Advances to Non-banking Customers

Loans and advances to non-banking customers represent the outstanding principal balance less provisions for losses as presented in Note 8.

For the purposes of these financial statements, financial lease receivables are classified as loans and advances to non-banking customers.

#### i) Leases

Finance leases, which confer rights and obligations similar to those attached to owned assets, are recognised as assets and liabilities at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

Rentals under operating lease are charged to the statement of income on a straight-line basis over the lease term.

#### j) Provisions for Possible Credit Losses

Non-performing loans and advances to customers including banking institutions are defined as loans and other credit balances in which contractually due principal is 30 days or more overdue, contractually due interest is 90 days or more overdue, or the Management otherwise believe that the contractual interest or principal due will not be collected.

The Bank issues commercial and consumer loans to customers throughout its market area. The Management of the Bank have considered both specific and general risks in determining the balance of provisions for possible credit losses. Provisions for possible credit losses are established in accordance with IAS and requirements of the Bank of Latvia and represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The specific provision is determined after individually reviewing all credits for potentially uncollectable amounts and is based on customer's financial position, value of collateral, fulfilment of loan agreement and compliance with the credit exposure limits determined by the Bank of Latvia. The general element of the provision relates to the potential losses, which experience indicates are present in the Bank's portfolio of loans and advances to customers.

When a loan or advance has been classified as non-performing or of high risk, a provision for possible credit losses is established for that specific loan or

advance for the amount of the outstanding balance which is deemed uncollectable. The value of collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when estimating the required provision.

The provision for possible credit losses is composed of the following:

- specific provision for credit exposures identified as potentially doubtful and high risk;
- general provision for the Bank's total exposure to:
  - credit concentration risk
  - collateral values
  - possible measures implemented to improve impaired customers' financial position
  - general market or operating events that have or have yet to occur, prior/or subsequent to the balance sheet date, for which a specific credit risk provision is not yet quantifiable.

The level of the provisions is based on estimates determined considering the relevant factors including, but not limited to, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay loans, estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting the loan and advance collectability and collateral values. The ultimate losses may vary from the current estimates.

The above estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The Management of the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in light of the available information.

When loans and advances cannot be recovered, they are written off to off-balance sheet accounts and charged against provision for possible credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

#### **k) Treasury Bills and Other Fixed Income Securities**

Treasury bills and other fixed income securities are held both for investment and trading purposes. The split of fixed income securities held for investment and trading purposes is based on the Management's intention to hold these instruments.

Fixed income securities held for investment purposes are stated at purchase price adjusted for amortised discount/ premium. The discount received/ premium paid at the moment of purchase is amortised on a straight-line basis over the period from purchase to maturity.

Provisions for fixed income securities are established where, in the opinion of the Bank's Management, a non-temporary diminution has occurred. Such fixed income securities are stated at cost less provisions established.

#### **l) Shares and Other Non-fixed Income Securities**

Investments in listed shares held for trading purposes are stated at their market value.

Unrealised profits or losses arising as a result of stating listed shares at market value are respectively credited or charged to the statement of income as profit or loss from revaluation of securities.

Unlisted shares held for investment purposes are stated at cost less any provision established due to non-temporary diminution in their value.

#### **m) Investments in Subsidiaries**

Investments in subsidiaries, in which the Bank holds directly or indirectly more than 50% of the shares and voting rights, are normally consolidated in the Bank's financial statements, except as discussed in Note 15.

#### **n) Tangible Fixed Assets**

Tangible 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 the course of construction and preparation are not depreciated.

The following depreciation rates have been applied:

| Category                            | Annual Rate |        |
|-------------------------------------|-------------|--------|
|                                     | 1999        | 1998   |
| Buildings and property improvements | 5%          | 5%     |
| Transport vehicles                  | 20%         | 33%    |
| EDP equipment                       | 25%         | 33%    |
| Other office equipment              | 10-33%      | 20-33% |

At the beginning of 1999, the Management of the Bank reviewed the depreciation applied to the fixed assets of the Bank and determined new depreciation rates as stated above. The impact on the statement of income arising from the changes in depreciation rates is disclosed in Note 16.

Maintenance and running repair costs are charged to the statement of income as incurred.

Leasehold improvements are capitalised and amortised over the remaining period of lease contract on a straight-line basis.

#### **o) Financial Instruments**

##### *Derivatives*

In the normal course of business, the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments, which are carried in off-balance sheet accounts.

Off-balance sheet financial assets and financial liabilities arising from such deals are carried in off-balance sheet accounts at the rate of exchange prevailing at the end of the reporting year. Gains or losses resulting from changes in rates of exchange subsequent to the date of the transaction are recognised in the statement of income as a profit or loss from revaluation of foreign currency positions.

##### *Other Off-balance Sheet Instruments*

In the ordinary course of business, the Bank has been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for loans and advances to non-banking customers as described in paragraph j) above.

#### **p) Funds Under Trust Management**

Funds under trust management are funds managed by the Bank on behalf of its customers. These funds are not regarded as assets of the Bank and, therefore, they are not included in the balance sheet.

#### q) Fair Value of Financial Assets and Liabilities

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 the Management, the fair values of financial assets and liabilities differ materially from their carrying values, such fair values are separately disclosed in the notes to the financial statements.

#### r) Cash and Cash Equivalents

Cash and cash equivalents represent the amounts comprising cash and demand deposits and term deposits with original maturity of 3 months or less with the Bank of Latvia and other credit institutions, short-term State Treasury bills with an original maturity of 3 months or less, less demand deposits and term deposits with the original maturity of 3 months or less with other credit institutions.

### 3. INTEREST INCOME AND EXPENSE (LVL)

| Interest income  | 1999             | 1998             |
|--|------------------|------------------|
| - interest on balances due from credit institutions            | 1,100,545        | 877,168          |
| - interest on loans and advances to non-banking customers      | 1,031,231        | 596,621          |
| - interest on Treasury bills and other fixed income securities | 1,001,552        | 2,979,708        |
| - other interest income  | 1,380            | -                |
| <b>Total interest income</b>                                   | <b>3,134,708</b> | <b>4,453,497</b> |

#### Interest expense

|   |                  |                |
|---|------------------|----------------|
| - interest on balances due to credit institutions | 193,706          | 260,947        |
| - interest on deposits from the public            | 861,945          | 720,011        |
| - other interest expense                          | 31,958           | -              |
| <b>Total interest expense</b>                     | <b>1,087,609</b> | <b>980,958</b> |

Interest income on Treasury bills and other fixed income securities for the year ended 31 December 1999, includes accrued coupon of Ukrainian government euro-bonds denominated in DEM in the amount of LVL 788 thousand (see Note 18).

### 4. COMMISSION AND FEE INCOME AND EXPENSE (LVL)

| Commission and fee income                                | 1999             | 1998             |
|--|------------------|------------------|
| - commission on payment transfers on behalf of customers | 1,228,914        | 1,286,228        |
| - cash disbursement/ transaction commission              | 692,062          | 547,556          |
| - service fees   | 136,531          | 128,192          |
| - commission on transactions with settlement cards       | 122,361          | 84,168           |
| - commission on granting loans and advances              | 53,305           | 19,483           |
| - commission on letters of credit                        | 37,707           | 30,263           |
| - commission on transactions with cheques                | 8,018            | 10,352           |
| - other commission and fee income                        | 53,369           | 47,262           |
| <b>Total commission and fee income</b>                   | <b>2,332,267</b> | <b>2,153,504</b> |

#### Commission and fee expense

|  |                |                |
|--|----------------|----------------|
| - correspondent bank service charges               | 260,452        | 289,730        |
| - interbank and other communication system charges | 219,061        | 226,898        |
| - cash disbursement/ transaction commission        | 75,627         | 181,739        |
| - commission on transactions with settlement cards | 31,457         | 21,205         |
| - commission on transactions with securities       | 6,398          | 1,493          |
| - other commission and fee expense                 | 53,979         | 42,157         |
| <b>Total commission and fee expense</b>            | <b>646,974</b> | <b>763,222</b> |

### 5. PROFIT/(LOSS) ON SECURITIES TRADING AND FOREIGN EXCHANGE, NET (LVL)

|  | 1999           | 1998               |
|--|----------------|--------------------|
| Profit from dealing with currency exchange                           | 657,078        | 1,502,701          |
| Profit from trading with securities                                  | 154,494        | 4,987              |
| Profit/(loss) from revaluation of securities                         | 155,292        | (286,483)          |
| Profit/(loss) from revaluation of foreign currency positions         | 29,093         | (5,308,259)        |
| <b>Profit/(loss) on securities trading and foreign exchange, net</b> | <b>995,957</b> | <b>(4,087,054)</b> |

As a result of the continued decline in the UAH/LVL exchange rate through 1998, the Bank had recorded a foreign exchange loss on hryvnia (UAH) denominated Ukrainian Treasury bills amounting to LVL 4,464 thousand. This loss is recorded in the statement of income for the year ended 31 December 1998 under the caption 'revaluation of foreign currency positions'.

Profit from trading with securities for the year ended 31 December 1999, includes a profit from sale of Russian fixed income securities (restructured GKO) denominated in Russian roubles in the amount of LVL 110 thousand. Due to the restrictions imposed on Russian roubles received as a result of the sale, in order to reflect their fair value, the Bank had established a specific provision for such assets in the amount of LVL 104 thousand. As a result of the sale of restricted Russian roubles during the year, established specific provision was written-off and, accordingly, there is no specific provision established for such assets as at year-end.

### 6. OTHER OPERATING INCOME (LVL)

|                                     | 1999          | 1998          |
|-------------------------------------|---------------|---------------|
| Rental income                       | 13,006        | 32,972        |
| Received penalties                  | 4,754         | 20,792        |
| Other income                        | 8,946         | 13,413        |
| <b>Total other operating income</b> | <b>26,706</b> | <b>67,177</b> |

### 7. ADMINISTRATIVE EXPENSE (LVL)

|  | 1999             | 1998             |
|--|------------------|------------------|
| Remuneration to the Council and the Board of Directors | 9,492            | 9,480            |
| Remuneration to other personnel                        | 674,140          | 713,992          |
| Social security contributions and related costs        | 186,798          | 194,561          |
| Communications   | 121,605          | 183,806          |
| Advertising  | 67,171           | 62,294           |
| Technical maintenance costs                            | 56,415           | 47,031           |
| Consulting and other professional services             | 37,279           | 65,927           |
| Office supplies  | 34,992           | 37,459           |
| Maintenance and repairs of premises                    | 34,258           | 54,914           |
| Security   | 20,332           | 19,637           |
| Donations  | 16,747           | 26,473           |
| Rent of premises                                       | 8,302            | 22,151           |
| Other administrative expense                           | 123,905          | 125,292          |
| <b>Total administrative expense</b>                    | <b>1,391,436</b> | <b>1,563,017</b> |

Remuneration to the members of the Council and the Board of Directors does not include remuneration to the members for other duties performed for the Bank.

During the reporting year, the Bank employed an average number of personnel amounting to 157 (165) persons.

The following table specifies employees of the Bank by personnel categories:

|                                       | <b>No. of employees</b> |                 |
|---------------------------------------|-------------------------|-----------------|
|                                       | <b>31/12/99</b>         | <b>31/12/98</b> |
| Management                            | 7                       | 7               |
| Other managing personnel and officers | 104                     | 114             |
| Other personnel                       | 41                      | 37              |
| <b>Total at the end of the year</b>   | <b>152</b>              | <b>158</b>      |

## 8. PROVISION EXPENSE FOR POSSIBLE CREDIT LOSSES AND RELEASE OF PREVIOUSLY ESTABLISHED PROVISION (LVL)

|   | <b>1999</b>        | <b>1998</b>      |
|---|--------------------|------------------|
| Specific provision at the beginning of the year             | 4,069,122          | 766,577          |
| General provision at the beginning of the year              | 131,778            | -                |
| <b>Total provision at the beginning of the year</b>         | <b>4,200,900</b>   | <b>766,577</b>   |
| Specific provision charged to statement of income           | 3,766,682          | 3,418,896        |
| General provision charged to statement of income            | -                  | 131,778          |
| <b>Total provision charged to statement of income</b>       | <b>3,766,682</b>   | <b>3,550,674</b> |
| Release of previously established specific provision        | (158,780)          | (67,382)         |
| Release of previously established general provision         | (28,014)           | -                |
| <b>Total release of previously established provision</b>    | <b>(186,794)</b>   | <b>(67,382)</b>  |
| <b>Total provision expense, net</b>                         | <b>3,579,888</b>   | <b>3,483,292</b> |
| <b>(Decrease) in provision due to currency fluctuations</b> | <b>(17,204)</b>    | <b>(48,969)</b>  |
| <b>Reversal of specific provision due to write-offs</b>     | <b>(4,089,982)</b> | <b>-</b>         |
| Specific provision at the end of the year                   | 3,569,838          | 4,069,122        |
| General provision at the end of the year                    | 103,764            | 131,778          |
| <b>Total provision at the end of the year</b>               | <b>3,673,602</b>   | <b>4,200,900</b> |

Based on the revised estimate of the fair value of Ukrainian government bonds, as described in Note 13, the Bank has established specific provisions in the amount of LVL 2,892 thousand and charged it to the statement of income for the year ended 31 December 1999.

The following table shows the structure of the total provisions established by the Bank for possible credit losses as at 31 December 1999.

|  | <b>Gross balance</b> | <b>Specific provision</b> | <b>General provision</b> | <b>Net balance</b> |
|--|----------------------|---------------------------|--------------------------|--------------------|
| Balances due from credit institutions            | 26,628,503           | (1,548)                   | (43,142)                 | 26,583,813         |
| Loans and advances to non-banking customers      | 10,102,661           | (601,544)                 | (60,622)                 | 9,440,495          |
| Treasury bills and other fixed income securities | 20,648,966           | (2,891,984)               | -                        | 17,756,982         |
| Investments in subsidiaries                      | 72,900               | (72,900)                  | -                        | -                  |
| Prepayments and accrued income                   | 1,377,594            | (1,862)                   | -                        | 1,375,732          |
| <b>Total</b>                                     | <b>58,830,624</b>    | <b>(3,569,838)</b>        | <b>(103,764)</b>         | <b>55,157,022</b>  |

(Note 8 continued)

The Bank's Management have evaluated its exposure to the inter-bank market and established general provisions in the amount of 2.5 % of the average outstanding balances for the year due from credit institutions incorporated in the CIS countries. The Management believe it is prudent to comply with this policy and will continue to monitor the adequacy of the provision.

The Management have also adopted a policy to establish a general provision of 2% for non-zero risk performing loans and advances to corporate customers and a 1% general provision for loans and advances to private individuals. The Management of the Bank believe that such a provisioning policy is appropriate and prudent under the current circumstances.

## 9. TAXES (LVL)

|                              | <b>1999</b>   | <b>1998</b>   |
|------------------------------|---------------|---------------|
| Real estate and property tax | 50,162        | 46,344        |
| <b>Total taxes</b>           | <b>50,162</b> | <b>46,344</b> |

The Management have estimated the Bank's exposure to deferred tax and determined that, due to the tax losses incurred in 1999 and 1998, there is no deferred tax liability for the Bank outstanding as at 31 December 1999.

As at 31 December 1999, the Bank has no overdue tax liabilities.

## 10. CASH AND DEPOSITS WITH THE BANK OF LATVIA (LVL)

|  | <b>31/12/99</b>  | <b>31/12/98</b>  |
|--|------------------|------------------|
| Cash   | 2,592,590        | 1,796,965        |
| Deposits with the Bank of Latvia                       | 3,322,133        | 1,470,777        |
| <b>Total cash and deposits with the Bank of Latvia</b> | <b>5,914,723</b> | <b>3,267,742</b> |

As at 31 December 1999, cash balance includes Thomas Cook travellers' cheques denominated in USD and EUR equivalent to LVL 19,004.

At 31 December 1999, the correspondent account with the Bank of Latvia amounted to LVL 3,322,133 and was denominated in Latvian currency. As at year-end, the correspondent account with the Bank of Latvia did not comprise balances in other currencies.

According to the resolution of the Council of the Bank of Latvia, since 1 December 1999, credit institutions should comply with the compulsory reserve requirement set at 7% (8%).

This compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia plus cash in LVL. The Bank was in compliance with this regulation as at 31 December 1999.

## 11. BALANCES DUE FROM CREDIT INSTITUTIONS (LVL)

|  | 31/12/99          | 31/12/98          |
|--|-------------------|-------------------|
| Due from credit institutions registered in OECD area       | 18,798,709        | 18,017,473        |
| Due from credit institutions registered in Latvia          | 12,967            | 29,532            |
| Due from credit institutions registered in other countries | 7,816,827         | 8,856,537         |
| <b>Total balances due from credit institutions</b>         | <b>26,628,503</b> | <b>26,903,542</b> |
| Less provision for possible credit losses (see Note 8)     | (44,690)          | (2,505,292)       |
| <b>Total balances due from credit institutions, net</b>    | <b>26,583,813</b> | <b>24,398,250</b> |

At 31 December 1999, the Bank had established correspondent relationships with 20 (16) credit institutions registered in the OECD area, 4 (3) credit institutions registered in Latvia and 32 (26) financial institutions incorporated in other non-OECD countries.

At 31 December 1999, the Bank had inter-bank balances with six correspondent credit institutions incorporated in the OECD area and three credit institutions registered in other countries where the aggregate balance due from those credit institutions comprised 89% and 84% of total balances due from credit institutions incorporated in the OECD area and other countries, respectively.

As at 31 December 1999, the balances due from credit institutions of other countries include balances due from credit institutions registered in the Baltic countries in the amount of LVL 4,158 thousand.

| Maturity profile  | Balances due from credit institutions |               |                  |                   |                   |
|---|---------------------------------------|---------------|------------------|-------------------|-------------------|
|   | OECD area                             | Latvia        | Other countries  | Total             | Total             |
|   |                                       |               |                  | 31/12/99          | 31/12/98          |
| Correspondent account balances                          | 4,659,402                             | 12,967        | 7,739,696        | 12,412,065        | 9,181,414         |
| Overnight deposits                                      | 1,635,198                             | -             | -                | 1,635,198         | 2,644,794         |
| Collateral deposits                                     | 552,609                               | -             | 77,131           | 629,740           | 295,771           |
| Term deposits   | 11,951,500                            | -             | -                | 11,951,500        | 14,781,563        |
| <b>Total balances due from credit institutions</b>      | <b>18,798,709</b>                     | <b>12,967</b> | <b>7,816,827</b> | <b>26,628,503</b> | <b>26,903,542</b> |
| Less provision for possible credit losses (see Note 8)  | -                                     | -             | (44,690)         | (44,690)          | (2,505,292)       |
| <b>Total balances due from credit institutions, net</b> | <b>18,798,709</b>                     | <b>12,967</b> | <b>7,772,137</b> | <b>26,583,813</b> | <b>24,398,250</b> |

## 12. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS (LVL)

|   | 31/12/99          | 31/12/98         |
|---|-------------------|------------------|
| Regular loans   | 5,243,667         | 5,656,568        |
| Overdraft facilities on current accounts                      | 763,417           | 115,427          |
| Utilised credit lines   | 3,775,575         | 379,213          |
| Debit balances on credit cards                                | 198,389           | 153,479          |
| Finance leases  | 121,613           | 153              |
| <b>Total loans and advances to non-banking customers</b>      | <b>10,102,661</b> | <b>6,304,840</b> |
| Less provision for possible credit losses (see Note 8)        | (662,166)         | (1,236,464)      |
| <b>Total loans and advances to non-banking customers, net</b> | <b>9,440,495</b>  | <b>5,068,376</b> |

The Latvian banking legislation requires that any credit exposure to a non-related entity or group of non-related entities may not exceed 25% of a credit institution's equity. The total credit exposure to all related parties may not exceed 15% of equity (for definition of the Bank's equity see Note 31).

As at 31 December 1999, the Bank was in compliance with the legal requirements set for the total amount of non-zero risk credit exposure to related parties and non-related entities.

The following table provides the aggregate amount of outstanding loans and advances to non-banking customers for which interest is not being accrued at 31 December 1999.

| Interest accrual basis  | 31/12/99          | 31/12/98         |
|---|-------------------|------------------|
| Accrual basis   | 9,208,443         | 4,880,468        |
| Non-accrual basis   | 894,218           | 1,424,372        |
| <b>Total loans and advances to non-banking customers</b>      | <b>10,102,661</b> | <b>6,304,840</b> |
| Less provision for possible credit losses (see Note 8)        | (662,166)         | (1,236,464)      |
| <b>Total loans and advances to non-banking customers, net</b> | <b>9,440,495</b>  | <b>5,068,376</b> |

The following table specifies the outstanding loans and advances by customer profile:

| Customer profile  | 31/12/99          | 31/12/98         |
|---|-------------------|------------------|
| Privately held companies                                      | 6,853,589         | 5,215,589        |
| Municipal enterprises   | 207,150           | 12,108           |
| Personnel   | 84,393            | 91,925           |
| Other private individuals                                     | 2,957,529         | 985,218          |
| <b>Total loans and advances to non-banking customers</b>      | <b>10,102,661</b> | <b>6,304,840</b> |
| Less provision for possible credit losses (see Note 8)        | (662,166)         | (1,236,464)      |
| <b>Total loans and advances to non-banking customers, net</b> | <b>9,440,495</b>  | <b>5,068,376</b> |

The table below specifies the outstanding loans and advances by geographical profile:

| Geographical residence profile                                | 31/12/99          | 31/12/98         |
|---|-------------------|------------------|
| Residents of the OECD area countries                          | 1,117,251         | 101,489          |
| Residents of Latvia   | 6,181,981         | 3,699,245        |
| Residents of the non-OECD area countries                      | 2,803,429         | 2,504,106        |
| <b>Total loans and advances to non-banking customers</b>      | <b>10,102,661</b> | <b>6,304,840</b> |
| Less provision for possible credit losses (see Note 8)        | (662,166)         | (1,236,464)      |
| <b>Total loans and advances to non-banking customers, net</b> | <b>9,440,495</b>  | <b>5,068,376</b> |

The industry analysis of loans and advances granted to corporate customers is provided below:

| Industry profile   | 31/12/99         | 31/12/98         |
|--|------------------|------------------|
| Trading  | 4,476,040        | 4,158,343        |
| Transport and communications                                 | 387,207          | 392,817          |
| Electricity, gas and other utilities                         | 207,150          | 12,108           |
| Agriculture and forestry                                     | 179,806          | 176,529          |
| Manufacturing  | 106,146          | 109,332          |
| Hotels and restaurants                                       | 12,826           | 25,566           |
| Construction   | 12,377           | 18,318           |
| Financial intermediaries                                     | 11,000           | 200,077          |
| Other industries   | 1,668,187        | 134,607          |
| <b>Total gross loans and advances to corporate customers</b> | <b>7,060,739</b> | <b>5,227,697</b> |

Significant increase of loans issued to other industries relates mainly to loans backed by security deposits and balances of credit cards issued to corporate customers.

The outstanding finance lease portfolio can be specified by assets leased as follows:

| Type of assets                    | 31/12/99       | 31/12/98   |
|-----------------------------------|----------------|------------|
| Transport vehicles                | 119,635        | -          |
| Other assets                      | 1,978          | 153        |
| <b>Total gross finance leases</b> | <b>121,613</b> | <b>153</b> |

### 13. TREASURY BILLS AND OTHER FIXED INCOME SECURITIES (LVL)

|  | 31/12/99          | 31/12/98          |
|--|-------------------|-------------------|
| Government bonds and Treasury bills                                | 11,290,865        | 10,145,683        |
| Bonds issued by privately held companies                           | 283,570           | -                 |
| Bonds issued by credit institutions                                | 9,074,531         | -                 |
| <b>Total Treasury bills and other fixed income securities</b>      | <b>20,648,966</b> | <b>10,145,683</b> |
| Less provision for possible credit losses (see Note 8)             | (2,891,984)       | (397,734)         |
| <b>Total Treasury bills and other fixed income securities, net</b> | <b>17,756,982</b> | <b>9,747,949</b>  |

In accordance with a decree of the Ukrainian Ministry of Finance dated 26 August 1998, non-resident investors of Ukrainian UAH denominated Treasury bills (OVDP) were offered to exchange their holdings, (UAH 1.7 billion), of such Treasury bills for new discounted USD denominated bonds with maturity in the year 2000 (KOVDP).

Based on balances as at 22 September 1998, the Bank accepted the offer and exchanged UAH denominated Ukrainian Treasury bills for USD denominated zero coupon bonds. The book value of exchanged Treasury bills amounted to UAH 46,788 thousand (LVL 8,843 thousand). The value of the exchanged Treasury bills, as calculated by the Ukrainian Ministry of Finance utilising predetermined discount rates, amounted to UAH 45,687 thousand (LVL 8,635 thousand). The difference has been expensed by the Bank in the statement of income for the year ended 31 December 1998 as a loss from revaluation of securities. The revised balance (per the Ukrainian Ministry of Finance) was exchanged for USD denominated bonds (maturing 22 September 2000) amounting to USD 16,042 thousand (LVL 9,369 thousand) utilising a fixed UAH/USD exchange rate of 2.848 to 1. The foreign exchange gain has been

credited to the statement of income for the year ended 31 December 1998. During 1999, the Bank accepted another offer of the Ukrainian government to exchange USD denominated zero coupon bonds for DEM denominated Ukrainian government bonds which mature on 26 February 2001 and bear a 16% coupon paid annually. As a result of accepting the aforementioned offer, the Bank exchanged USD denominated bonds with a nominal value of USD 11,680 thousand plus an additional cash investment of USD 1,314 thousand for DEM denominated bonds with a nominal value of DEM 19,410 thousand. The cost of the exchanged DEM denominated bonds amounted to DEM 18,309 thousand (94% of their nominal value). The USD denominated bonds exchange were accepted at a price of 75% of their nominal value. The gain arising from the difference between the average cost value of USD denominated Ukrainian government bonds and the price determined for the exchange has been set-off against the cost of the exchanged Ukrainian government bonds denominated in DEM.

As described in Note 34, on 4 February 2000, the Ukrainian government announced restructuring of its foreign debt that was successfully accepted by the majority of creditors who were subject to the restructuring offer. As a result, the Management of the Bank have revised their estimate of the fair value of Ukrainian government bonds based on available quotations of restructured Ukrainian government bonds and the terms and conditions of the restructuring, and retrospectively adopted a policy to value Ukrainian government bonds denominated in DEM and USD respectively at 60% and 58% of their nominal values.

Based on the revised estimate of the fair value of Ukrainian government bonds, the Bank has established a specific provision in the amount of LVL 2,892 thousand and charged it to the statement of income for the year ended 31 December 1999 (see Note 8). Accordingly, as at 31 December 1999, the carrying book value of Ukrainian government bonds denominated in USD and DEM was LVL 3,948 thousand and LVL 3,498 thousand, respectively.

|  | 31/12/99     |                   | 31/12/98       |                  |
|--|--------------|-------------------|----------------|------------------|
|  | Short-term   | Long-term         | Short-term     | Long-term        |
| Ukrainian government bonds   | -            | 10,338,476        | -              | 9,678,236        |
| Italian government eurobonds                                       | -            | 590,748           | -              | -                |
| Slovenian government eurobonds                                     | -            | 179,672           | -              | -                |
| Latvian government eurobonds                                       | -            | 177,377           | -              | -                |
| Russian Treasury bills   | 4,592        | -                 | 457,133        | -                |
| U.S. government Treasury bills                                     | -            | -                 | 10,314         | -                |
| Bonds issued by credit institutions incorporated in OECD area      | -            | 9,074,531         | -              | -                |
| Bonds issued by privately held companies registered in OECD area   | -            | 283,570           | -              | -                |
| <b>Total Treasury bills and other fixed income securities</b>      | <b>4,592</b> | <b>20,644,374</b> | <b>467,447</b> | <b>9,678,236</b> |
| Less provision for possible credit losses (see Note 8)             | -            | (2,891,984)       | (397,734)      | -                |
| <b>Total Treasury bills and other fixed income securities, net</b> | <b>4,592</b> | <b>17,752,390</b> | <b>69,713</b>  | <b>9,678,236</b> |

All fixed income securities, except for U.S. Treasury bills, are held for investment purposes.

The aggregate amounts of unamortised discounts and premiums for Treasury bills and other fixed income securities, except for Ukrainian government bonds, as at 31 December 1999, amounted to LVL 55 thousand and LVL 17 thousand, respectively.

Based on the management information, the market value of listed Treasury bills and other fixed income securities, except for the investments in those

fixed income securities where the provisions have been established, does not materially differ from their carrying value. Accordingly, the market values of listed fixed income securities are not provided.

The following table (see page 26) presents classification of the investments made by the Bank in Treasury bills and other fixed income securities by listed and unlisted securities on recognised stock exchanges:

|  | 31/12/99          |                  | 31/12/98      |                   |
|--|-------------------|------------------|---------------|-------------------|
|  | Listed            | Unlisted         | Listed        | Unlisted          |
| OECD area countries  |                   |                  |               |                   |
| Italian government eurobonds                                       | 590,748           | -                | -             | -                 |
| U.S. Treasury bills  | -                 | -                | 10,314        | -                 |
| Bonds issued by credit institutions                                | 9,074,531         | -                | -             | -                 |
| Bonds issued by privately held companies                           | 283,570           | -                | -             | -                 |
| Non-OECD area countries:   |                   |                  |               |                   |
| Ukrainian government bonds   | 5,366,564         | 4,971,912        | -             | 9,678,236         |
| Slovenian government eurobonds                                     | 179,672           | -                | -             | -                 |
| Russian Treasury bills   | -                 | 4,592            | -             | 457,133           |
| Latvian government eurobonds                                       | 177,377           | -                | -             | -                 |
| <b>Total Treasury bills and other fixed income securities</b>      | <b>15,672,462</b> | <b>4,976,504</b> | <b>10,314</b> | <b>10,135,369</b> |
| Less provision for possible credit losses (see Note 8)             | (1,868,195)       | (1,023,789)      | -             | (397,734)         |
| <b>Total Treasury bills and other fixed income securities, net</b> | <b>13,804,267</b> | <b>3,952,715</b> | <b>10,314</b> | <b>9,737,635</b>  |

#### 14. SHARES AND OTHER NON-FIXED INCOME SECURITIES (LVL)

The following table presents the investments made by the Bank in listed and unlisted shares and other non-fixed income securities.

|   | 31/12/99         | 31/12/98      |
|---|------------------|---------------|
| Equity shares in Latvian corporate entities               | 9,998            | 38,988        |
| Equity shares in foreign corporate entities               | 1,122,080        | 53,386        |
| <b>Total shares and other non-fixed income securities</b> | <b>1,132,078</b> | <b>92,374</b> |

Investments in listed equity shares are held for trading purposes and are recorded at their market value. Unlisted equity shares are held for investment purposes and are stated in the balance sheet at cost.

|   | 31/12/99         |               |                  | 31/12/98      |               |               |
|---|------------------|---------------|------------------|---------------|---------------|---------------|
|   | Listed           | Unlisted      | Total            | Listed        | Unlisted      | Total         |
| Corporate entities registered in OECD area countries      | 847,580          | 12,015        | 859,595          | -             | 13,613        | 13,613        |
| Russian corporate entities                                | 262,485          | -             | 262,485          | 39,773        | -             | 39,773        |
| Latvian credit institutions                               | 1,302            | -             | 1,302            | 1,028         | -             | 1,028         |
| Latvian companies   | 8,696            | -             | 8,696            | 10,960        | 27,000        | 37,960        |
| <b>Total shares and other non-fixed income securities</b> | <b>1,120,063</b> | <b>12,015</b> | <b>1,132,078</b> | <b>51,761</b> | <b>40,613</b> | <b>92,374</b> |

#### 15. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES (LVL)

The following table presents the Bank's investments in subsidiaries and associated entities at the end of the reporting year:

| Name   | Business profile       | 31/12/99      |                  | 31/12/98     |                  |
|--|------------------------|---------------|------------------|--------------|------------------|
|  |                        | Cost value    | Equity share (%) | Cost value   | Equity share (%) |
| <b>Investments in subsidiaries</b>                     |                        |               |                  |              |                  |
| SIA Veiksmen Elektroniks                               | Trading                | 51,100        | 98%              | 1,100        | 55%              |
| SIA Riventa  | Trading                | 21,800        | 93%              | 1,800        | 52%              |
| <b>Total investments in subsidiaries</b>               |                        | <b>72,900</b> |                  | <b>2,900</b> |                  |
| Less provision for possible credit losses (see Note 8) |                        | (72,900)      |                  | -            |                  |
| <b>Total investments in subsidiaries, net</b>          |                        | <b>-</b>      |                  | <b>2,900</b> |                  |
| <b>Investments in associated entities</b>              |                        |               |                  |              |                  |
| SIA Banku Servisa Centrs                               | Financial intermediary | 93,834        | 24%              | -            | -                |
| <b>Total investments in associated entities</b>        |                        | <b>93,834</b> |                  | <b>-</b>     |                  |

As at 31 December 1998, the Bank's shareholding in SIA Banku Servisa Centrs was 12%, and the carrying value of investment was LVL 27,000. Based on the above percentage of the Bank's shareholding, as at 31 December 1998, this investment was classified as shares and other non-fixed income securities.

The following table shows movements in the cost value of the Bank's investments in subsidiaries and associated entities during the reporting year:

|                                  | SIA Veiksmen Elektroniks | SIA Riventa   | SIA Banku Servisa Centrs | Total          |
|----------------------------------|--------------------------|---------------|--------------------------|----------------|
| <b>As at 1 January 1999</b>      | <b>1,100</b>             | <b>1,800</b>  | <b>27,000</b>            | <b>29,900</b>  |
| Contributions into share capital | 50,000                   | 20,000        | -                        | 70,000         |
| Purchase of investments          | -                        | -             | 66,834                   | 66,834         |
| <b>As at 31 December 1999</b>    | <b>51,100</b>            | <b>21,800</b> | <b>93,834</b>            | <b>166,734</b> |

Prior to the acquisition, the Bank had granted credit facilities to both subsidiaries. In 1998, the Bank acquired 55% of SIA Veiksmen Elektroniks shares and 52% of SIA Riventa shares in order to obtain control over the operations of the borrowers.

The Management of the Bank considered these investments to be temporary, as they were acquired and held exclusively with a view to their subsequent disposal after the recovery of granted credit facilities, and, accordingly, consolidated financial statements were not prepared for the year ended 31 December 1998.

However, during 1999, the financial position of both companies did not improve to the extent that all granted credit facilities could be fully recovered, and at the end of the year, the Bank resolved to acquire additional shares of both companies in order to establish full control over their operations, as well as commence restructuring of those operations and dispose of the companies by 1 May 2000. Accordingly, consolidated financial statements are not prepared for the year ended 31 December 1999.

## 16. FIXED ASSETS (LVL)

|   | 31/12/99         | 31/12/98         |
|---|------------------|------------------|
| Land  | 117,760          | 114,687          |
| Buildings and property improvements         | 1,720,359        | 1,770,911        |
| Leasehold improvements                      | 20,384           | -                |
| Transport vehicles                          | 182,803          | 126,948          |
| Office equipment                            |                  |                  |
| EDP equipment                               | 184,402          | 169,095          |
| Other tangible fixed assets                 | 388,484          | 354,638          |
| <b>Total office equipment</b>               | <b>572,886</b>   | <b>523,733</b>   |
| Prepayments for tangible fixed assets       | 17,671           | 34,782           |
| <b>Total tangible fixed assets</b>          | <b>2,631,863</b> | <b>2,571,061</b> |
| Intangible fixed assets                     | 160              | 320              |
| <b>Total net book value of fixed assets</b> | <b>2,632,023</b> | <b>2,571,381</b> |

The following table demonstrates movements in the Bank's tangible fixed assets during the year ended 31 December 1999:

|  | Land    | Buildings and property improvements | Leasehold improvements | Transport vehicles | Office equipment | Total tangible fixed assets excluding prepayments |
|--|---------|-------------------------------------|------------------------|--------------------|------------------|---|
| <b>Historical cost</b>                   |         |                                     |                        |                    |                  |   |
| As at 1 January 1999                     | 114,687 | 1,884,720                           | -                      | 213,927            | 1,446,345        | 3,659,679   |
| Additions                                | 3,073   | 39,317                              | 20,551                 | 114,963            | 243,400          | 421,304   |
| Disposals                                | -       | -                                   | -                      | (54,822)           | (8,805)          | (63,627)  |
| As at 31 December 1999                   | 117,760 | 1,924,037                           | 20,551                 | 274,068            | 1,680,940        | 4,017,356   |
| <b>Accumulated depreciation</b>          |         |                                     |                        |                    |                  |   |
| As at 1 January 1999                     | -       | 113,809                             | -                      | 86,980             | 922,611          | 1,123,400   |
| Charge for the year                      | -       | 89,869                              | 167                    | 35,671             | 192,031          | 317,738   |
| Depreciation write-off                   | -       | -                                   | -                      | (31,386)           | (6,588)          | (37,974)  |
| As at 31 December 1999                   | -       | 203,678                             | 167                    | 91,265             | 1,108,054        | 1,403,164   |
| <b>Net book value</b>                    |         |                                     |                        |                    |                  |   |
| As at 1 January 1999                     | 114,687 | 1,770,911                           | -                      | 126,947            | 523,734          | 2,536,279   |
| As at 31 December 1999                   | 117,760 | 1,720,359                           | 20,384                 | 182,803            | 572,886          | 2,614,192   |
| Depreciation rate (straight-line method) | -       | 5%                                  | 10%                    | 20%                | 10-33%           | -   |

In 1999, the Bank's Management have revised depreciation rates for fixed assets. The new depreciation rates adopted by the Bank resulted in a decrease of depreciation expense for the reporting year by LVL 177 thousand.

## 17. OTHER ASSETS (LVL)

|   | 31/12/99       | 31/12/98       |
|---|----------------|----------------|
| Cash held with securities brokerage company   | 152,449        | -              |
| Clearing balances related to credit cards     | 22,938         | -              |
| Input VAT on finance lease                    | 20,025         | -              |
| Prepaid corporate income tax                  | -              | 145,838        |
| Receivable from Russian court                 | -              | 61,410         |
| Other short-term assets                       | 29,716         | 38,270         |
| <b>Total other assets</b>                     | <b>225,128</b> | <b>245,518</b> |
| Less provisions for other assets (see note 8) | -              | (61,410)       |
| <b>Total other assets, net</b>                | <b>225,128</b> | <b>184,108</b> |

In order to enter in arbitrage transactions with equity shares of U.S. corporate entities, the Bank has opened an account with an U.S. based securities brokerage company. Cash held on the account mainly represents the security for the Bank's equity share borrowings (see Note 21).

## 18. PREPAYMENTS AND ACCRUED INCOME (LVL)

|   | 31/12/99         | 31/12/98      |
|---|------------------|---------------|
| Accrued interest receivable                             | 1,147,540        | 80,720        |
| Other accrued income                                    | 6,449            | -             |
| Unrealised gain on outstanding FX transactions          | 203,904          | -             |
| Prepayments   | 19,701           | 13,935        |
| <b>Total prepayments and accrued income</b>             | <b>1,377,594</b> | <b>94,655</b> |
| Less provisions for possible credit losses (see Note 8) | (1,862)          | -             |
| <b>Total prepayments and accrued income, net</b>        | <b>1,375,732</b> | <b>94,655</b> |

As at 31 December 1999, accrued interest receivable includes accrued coupon on Ukrainian government bonds denominated in DEM in the amount of LVL 788 thousand. The coupon was originally due on 26 February 2000, however, based on the terms and conditions of subsequent restructuring of Ukraine foreign debt described in Note 34, the payment of coupon was postponed till April 2000. No provision has been established for the above accrual for Ukrainian government bonds coupon.

## 19. BALANCES DUE TO CREDIT INSTITUTIONS (LVL)

The following table provides an analysis of balances due to credit institutions by their maturity:

|  | 31/12/99         | 31/12/98         |
|--|------------------|------------------|
| Balances repayable on demand                     | 5,705,244        | 1,849,915        |
| Collateral deposits                              | 503,829          | 1,811,435        |
| Term deposits                                    | -                | 3,414,000        |
| <b>Total balances due to credit institutions</b> | <b>6,209,073</b> | <b>7,075,350</b> |

All balances due to credit institutions represent balances due to credit institutions registered in non-OECD countries, except for Latvia.

At 31 December 1999, the Bank had outstanding balances due to one credit institution, registered in a non-OECD country, where the aggregate of all balances due to that credit institution comprised 72% of the total balances due to credit institutions.

## 20. DEPOSITS FROM THE PUBLIC (LVL)

The following tables show deposits from the public by sector profile and geographical profile of customers' residence:

| Sector profile                        | 31/12/99          | 31/12/98          |
|---------------------------------------|-------------------|-------------------|
| Privately held companies              | 40,400,898        | 24,002,241        |
| Private individuals                   | 12,978,568        | 7,804,821         |
| Municipalities                        | 279,989           | 417,810           |
| State enterprises                     | 106,988           | 227,907           |
| Central governments                   | 31,118            | 87,726            |
| Public and religious organisations    | 16,279            | 14,005            |
| Privately held financial institutions | 490               | 11                |
| <b>Total deposits from the public</b> | <b>53,814,330</b> | <b>32,554,521</b> |

### Geographical profile of customers' residence

|                                       | 31/12/99          | 31/12/98          |
|---------------------------------------|-------------------|-------------------|
| Residents                             | 2,572,936         | 2,289,269         |
| Non-residents                         | 51,241,394        | 30,265,252        |
| <b>Total deposits from the public</b> | <b>53,814,330</b> | <b>32,554,521</b> |

## 21. OTHER LIABILITIES (LVL)

|  | 31/12/99       | 31/12/98       |
|--|----------------|----------------|
| Liabilities arising from equity share borrowings | 125,246        | -              |
| Suspense amounts                                 | 96,989         | 167,862        |
| Money in transit                                 | -              | 211,625        |
| Other liabilities                                | 40,976         | 23,298         |
| <b>Total other liabilities</b>                   | <b>263,211</b> | <b>402,785</b> |

Liabilities arising from equity share borrowings relate to shares of U.S. corporate entities (see Note 17).

Suspense amounts comprise of outstanding incoming transfers where the payment details are not specified to the extent that the Bank has reasonable assurance to place these balances on the respective customer accounts.

For the purposes of these financial statements, money in transit accounts have been cleared, and based on the value dates of respective transfers usually classified as deposits from the public. However, due to extensive work required to clear all money in transit accounts as at 31 December 1998, the Management have not considered it practical to present comparative figures in respect of money in transit accounts.

## 22. DEFERRED INCOME AND ACCRUED EXPENSE (LVL)

|  | 31/12/99       | 31/12/98       |
|--|----------------|----------------|
| Accrued interest payable                         | 192,809        | 157,171        |
| Accrued administrative expense                   | 65,074         | 69,372         |
| <b>Total deferred income and accrued expense</b> | <b>257,883</b> | <b>226,543</b> |

### 23. PROVISIONS FOR LIABILITIES AND CHARGES (LVL)

|   | 31/12/99      | 31/12/98      |
|---|---------------|---------------|
| Provision for employee holiday pay                  | 47,563        | 30,060        |
| Dividends payable                                   | 1,190         | 1,435         |
| <b>Total provisions for liabilities and charges</b> | <b>48,753</b> | <b>31,495</b> |

### 24. MEMORANDUM ITEMS (LVL)

|                                     | 31/12/99         | 31/12/98       |
|-------------------------------------|------------------|----------------|
| <b>Contingent liabilities</b>       |                  |                |
| Letters of credit                   | 1,471,002        | 183,380        |
| Outstanding guarantees              | 204,495          | 150,167        |
| <b>Total contingent liabilities</b> | <b>1,675,497</b> | <b>333,547</b> |

#### Financial commitments

|   |                  |                  |
|---|------------------|------------------|
| Loans granted   | 936,188          | 487,764          |
| Undrawn credit lines  | 1,030,445        | 451,367          |
| <b>Total financial commitments</b>                            | <b>1,966,633</b> | <b>939,131</b>   |
| <b>Total contingent liabilities and financial commitments</b> | <b>3,642,130</b> | <b>1,272,678</b> |

The following table provides analysis of the outstanding memorandum items by geographical profile of customers' residence:

|   | OECD area        | Latvia           | Other non-OECD countries | Total as at 31/12/99 |
|---|------------------|------------------|--------------------------|----------------------|
| <b>Contingent liabilities</b>                                 |                  |                  |                          |                      |
| Letters of credit   | 675,030          | 565,272          | 230,700                  | 1,471,002            |
| Outstanding guarantees  | 61,215           | 101,012          | 42,268                   | 204,495              |
| <b>Total contingent liabilities</b>                           | <b>736,245</b>   | <b>666,284</b>   | <b>272,968</b>           | <b>1,675,497</b>     |
| <b>Financial commitments</b>                                  |                  |                  |                          |                      |
| Loans granted   | 426,258          | 287,735          | 222,195                  | 936,188              |
| Undrawn credit lines  | -                | 1,030,445        | -                        | 1,030,445            |
| <b>Total financial commitments</b>                            | <b>426,258</b>   | <b>1,318,180</b> | <b>222,195</b>           | <b>1,966,633</b>     |
| <b>Total contingent liabilities and financial commitments</b> | <b>1,162,503</b> | <b>1,984,464</b> | <b>495,163</b>           | <b>3,642,130</b>     |

The following table provides analysis of the outstanding foreign exchange transactions by geographical profile of counterparties:

|   | OECD area      | Latvia        | Other non-OECD countries | Total as at 31/12/99 |
|---|----------------|---------------|--------------------------|----------------------|
| <b>Foreign exchange transactions</b>      |                |               |                          |                      |
| Spot foreign exchange receivable          | 390,190        | -             | -                        | 390,190              |
| Spot foreign exchange payable             | (390,610)      | -             | -                        | (390,610)            |
| Currency swap receivable                  | -              | 1,119,072     | -                        | 1,119,072            |
| Currency swap payable                     | -              | (1,103,272)   | -                        | (1,103,272)          |
| Forward foreign exchange receivable       | 5,137,363      | -             | -                        | 5,137,363            |
| Forward foreign exchange payable          | (4,942,022)    | -             | -                        | (4,942,022)          |
| <b>Foreign exchange transactions, net</b> | <b>194,921</b> | <b>15,800</b> | <b>-</b>                 | <b>210,721</b>       |

### 25. FUNDS UNDER TRUST MANAGEMENT (LVL)

The table below provides analysis of the funds managed on behalf of the Bank's customers by investment type:

|   | 31/12/99       | 31/12/98       |
|---|----------------|----------------|
| Ukrainian government bonds                | 209,841        | 216,429        |
| Russian government bonds                  | 19,703         | 103,811        |
| Cash funds                                | 389            | -              |
| <b>Total funds under trust management</b> | <b>229,933</b> | <b>320,240</b> |

In 1999, the Bank of Latvia has taken the decision not to allow the Bank to enter into any new or extend existing agreements on managing the funds on behalf of customers (trust).

## 26. SHAREHOLDERS' EQUITY (LVL)

As at 31 December 1999, the issued and registered share capital of the Bank amounted to LVL 5,000,000 (5,000,000). The share capital consists of ordinary shares only. All the shares have a par value of LVL 50 (50) each.

As at 31 December 1999, the Bank had 175 (178) shareholders, including 36 (37) legal entities and 139 (141) private individuals holding the total of 100,000 shares, including 30 shares assigned to the Board of Directors and 1,600 shares held by SIA H.E.C.Konsultants without voting rights. The members of the Board of Directors directly hold 57.1% (30.5%) of the share capital.

In October 1999, the Board of the Bank of Latvia gave permission for Ernests Bernis and Oļegs Fiļs to increase their shareholding in a/s Aizkraukles banka. The increase relates to purchase of the Bank's shares from Associated Russian Commerce Limited.

At the end of the reporting year, there was a group of shareholders - Oļegs Fiļs and Nadežda Fiļ, which indirectly controls 14.43% (9.91%) of the Bank's shares with voting rights.

The major shareholders of the Bank, controlling more than 10% of the Bank's paid-in share capital, are:

|                                     | 31/12/99                 |  | 31/12/98                 |  |
|-------------------------------------|--------------------------|--|--------------------------|--|
|                                     | Paid-in<br>share capital | % of total<br>paid-in<br>share capital | Paid-in<br>share capital | % of total<br>paid-in<br>share capital |
| Associated Russian Commerce Limited | -                        | -                                      | 1,327,550                | 26.55                                  |
| SIA H.E.C. Konsultants              | 524,500                  | 10.49                                  | 524,500                  | 10.49                                  |
| Ernests Bernis                      | 1,589,900                | 31.80                                  | 488,050                  | 9.76                                   |
| Oļegs Fiļs                          | 699,300                  | 13.99                                  | 473,600                  | 9.47                                   |
| Aleksandrs Bergmanis                | 565,500                  | 11.31                                  | 563,650                  | 11.27                                  |
| <b>Total</b>                        | <b>3,379,200</b>         | <b>67.59</b>                           | <b>3,377,350</b>         | <b>67.54</b>                           |

## 27. CURRENCY ANALYSIS (LVL THOUSAND)

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as at 31 December 1999 by currency profile:

| Assets  | LVL            | USD            | EUR            | RUB          | Other<br>currencies | Total         |
|---|----------------|----------------|----------------|--------------|---------------------|---------------|
| Cash and deposits with the Bank of Latvia         | 4,820          | 914            | 129            | -            | 52                  | 5,915         |
| Balances due from credit institutions             | -              | 17,122         | 1,736          | 3,113        | 4,613               | 26,584        |
| Loans and advances to non-banking customers       | 1,102          | 5,672          | 457            | 2,209        | -                   | 9,440         |
| Treasury bills and other fixed income securities  | -              | 13,897         | 3,855          | 5            | -                   | 17,757        |
| Shares and other non-fixed income securities      | 10             | 1,110          | 12             | -            | -                   | 1,132         |
| Investments in associated entities                | 94             | -              | -              | -            | -                   | 94            |
| Tangible fixed assets                             | 2,631          | 1              | -              | -            | -                   | 2,632         |
| Other assets                                      | 21             | 204            | -              | -            | -                   | 225           |
| Prepayments and accrued income                    | 230            | 340            | 802            | 2            | 2                   | 1,376         |
| <b>Total assets</b>                               | <b>8,908</b>   | <b>39,260</b>  | <b>6,991</b>   | <b>5,329</b> | <b>4,667</b>        | <b>65,155</b> |
| <b>Liabilities</b>                                |                |                |                |              |                     |               |
| Balances due to credit institutions               | 129            | 1,796          | 27             | 173          | 4,084               | 6,209         |
| Deposits from the public                          | 1,608          | 43,769         | 2,775          | 5,321        | 341                 | 53,814        |
| Other liabilities                                 | 33             | 133            | 36             | 49           | 12                  | 263           |
| Deferred income and accrued expense               | 72             | 183            | 3              | -            | -                   | 258           |
| Provisions for liabilities and charges            | 47             | 2              | -              | -            | -                   | 49            |
| <b>Total liabilities</b>                          | <b>1,889</b>   | <b>45,883</b>  | <b>2,841</b>   | <b>5,543</b> | <b>4,437</b>        | <b>60,593</b> |
| <b>Shareholders' equity</b>                       | <b>4,562</b>   | <b>-</b>       | <b>-</b>       | <b>-</b>     | <b>-</b>            | <b>4,562</b>  |
| <b>Total liabilities and shareholders' equity</b> | <b>6,451</b>   | <b>45,883</b>  | <b>2,841</b>   | <b>5,543</b> | <b>4,437</b>        | <b>65,155</b> |
| <b>Net long/(short) position on balance sheet</b> | <b>2,457</b>   | <b>(6,623)</b> | <b>4,150</b>   | <b>(214)</b> | <b>230</b>          | <b>-</b>      |
| <b>Outstanding foreign exchange</b>               |                |                |                |              |                     |               |
| <b>receivable/(payable)</b>                       | <b>(1,103)</b> | <b>5,866</b>   | <b>(4,590)</b> | <b>-</b>     | <b>38</b>           | <b>211</b>    |
| <b>Net long/(short) open currency position</b>    | <b>1,354</b>   | <b>(757)</b>   | <b>(440)</b>   | <b>(214)</b> | <b>268</b>          | <b>211</b>    |
| <b>Percentage of shareholders' equity, (%)</b>    | <b>29.7%</b>   | <b>16.6%</b>   | <b>9.6%</b>    | <b>4.7%</b>  | <b>5.9%</b>         | <b>-</b>      |

The Bank endeavours to control the foreign currency positions such that the currency exposure can be avoided.

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity (see Note 31 for the definition of equity under the Bank of Latvia's regulations) and that the total foreign currency open position may not exceed 20% of equity.

Due to the provisions for possible credit losses established at year end, the Bank has temporarily exceeded the above open position limits.

## 28. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE (LVL THOUSAND)

The table below provides distribution of assets, liabilities and memorandum items by their maturity profiles.

| <b>Assets</b>                                     | <b>Over-<br/>due</b> | <b>On<br/>demand</b> | <b>Up to<br/>1 month</b> | <b>1-3<br/>months</b> | <b>3-6<br/>months</b> | <b>6-12<br/>months</b> | <b>1-5<br/>years</b> | <b>Over<br/>5 years</b> | <b>Undated</b> | <b>Total</b>  |
|---|----------------------|----------------------|--------------------------|-----------------------|-----------------------|------------------------|----------------------|-------------------------|----------------|---------------|
| Cash and deposits with the Bank of Latvia         | -                    | 5,915                | -                        | -                     | -                     | -                      | -                    | -                       | -              | 5,915         |
| Balances due from credit institutions             | -                    | 14,003               | 11,946                   | 118                   | 292                   | -                      | -                    | -                       | 225            | 26,584        |
| Loans and advances to non-banking customers       | 24                   | -                    | 1,647                    | 1,486                 | 1,923                 | 1,662                  | 2,590                | 108                     | -              | 9,440         |
| Treasury bills and other fixed income securities  | -                    | -                    | -                        | 953                   | 878                   | 3,949                  | 11,977               | -                       | -              | 17,757        |
| Shares and other non-fixed income securities      | -                    | 1,110                | -                        | -                     | -                     | -                      | -                    | -                       | 22             | 1,132         |
| Investments in associated entities                | -                    | -                    | -                        | -                     | -                     | -                      | -                    | -                       | 94             | 94            |
| Tangible fixed assets                             | -                    | -                    | -                        | -                     | -                     | -                      | -                    | -                       | 2,632          | 2,632         |
| Prepayments and accrued income                    | 40                   | -                    | 203                      | 1,081                 | 40                    | 12                     | -                    | -                       | -              | 1,376         |
| Other assets                                      | -                    | 175                  | -                        | -                     | -                     | -                      | -                    | -                       | 50             | 225           |
| <b>Total assets</b>                               | <b>64</b>            | <b>21,203</b>        | <b>13,796</b>            | <b>3,638</b>          | <b>3,133</b>          | <b>5,623</b>           | <b>14,567</b>        | <b>108</b>              | <b>3,023</b>   | <b>65,155</b> |
| <b>Liabilities</b>                                |                      |                      |                          |                       |                       |                        |                      |                         |                |               |
| Balances due to credit institutions               | -                    | 5,705                | 209                      | 295                   | -                     | -                      | -                    | -                       | -              | 6,209         |
| Deposits from the public                          | -                    | 43,728               | 3,338                    | 2,690                 | 2,505                 | 626                    | 927                  | -                       | -              | 53,814        |
| Other liabilities                                 | -                    | 263                  | -                        | -                     | -                     | -                      | -                    | -                       | -              | 263           |
| Deferred income and accrued expense               | -                    | -                    | 258                      | -                     | -                     | -                      | -                    | -                       | -              | 258           |
| Provisions for liabilities and charges            | -                    | -                    | -                        | -                     | -                     | -                      | -                    | -                       | 49             | 49            |
| Shareholders' equity                              | -                    | -                    | -                        | -                     | -                     | -                      | -                    | -                       | 4,562          | 4,562         |
| <b>Total liabilities and shareholders' equity</b> | <b>-</b>             | <b>49,696</b>        | <b>3,805</b>             | <b>2,985</b>          | <b>2,505</b>          | <b>626</b>             | <b>927</b>           | <b>-</b>                | <b>4,611</b>   | <b>65,155</b> |
| <b>Memorandum items</b>                           |                      |                      |                          |                       |                       |                        |                      |                         |                |               |
| Letters of credit                                 | -                    | -                    | 922                      | 258                   | -                     | 291                    | -                    | -                       | -              | 1,471         |
| Outstanding guarantees                            | -                    | 63                   | 63                       | 15                    | -                     | -                      | 64                   | -                       | -              | 205           |
| Loans granted                                     | -                    | 936                  | -                        | -                     | -                     | -                      | -                    | -                       | -              | 936           |
| Undrawn credit lines                              | -                    | 1,030                | -                        | -                     | -                     | -                      | -                    | -                       | -              | 1,030         |
| <b>Total memorandum items</b>                     | <b>-</b>             | <b>2,029</b>         | <b>985</b>               | <b>273</b>            | <b>-</b>              | <b>291</b>             | <b>64</b>            | <b>-</b>                | <b>-</b>       | <b>3,642</b>  |

Assets, liabilities and memorandum items are allocated to maturity groups based on remaining period from the balance sheet date to:

- repayment or selling dates of assets;
- repayment dates of liabilities;
- contractual maturity dates of memorandum items.

The maturity structure of assets, liabilities and memorandum items of credit institution is assessed by calculating the net liquidity position as a difference between assets, liabilities and memorandum items in each maturity group and the total liquidity position as a difference between assets, liabilities and memorandum items in a progressive succession of maturity groups. The relationship between the maturity of assets and liabilities as well as memorandum items is indicative of liquidity risk and the extent to which it might be necessary to raise funds to meet outstanding obligations.

The balances of those assets for which provisions have been established are stated at their net book value.

The largest maturity group of assets (LVL 21,203 thousand) and liabilities (LVL 49,696 thousand) are balances on demand.

According to the Bank of Latvia's regulations, highly liquid assets (cash, deposits with the Bank of Latvia, balances due from credit institutions and highly liquid securities) may not constitute less than 30% of the Bank's short-term liabilities. As at 31 December 1999, the liquidity ratio of the Bank was 77%.

The maturity profile presented above has not been adjusted for subsequent restructuring of Ukrainian government bonds, as described in Note 34.

## 29. REPRICING MATURITY PROFILE

The majority of the Bank's interest bearing assets and liabilities has fixed interest rates which can be repriced at their maturity as presented in Note 28. However, in order to reduce interest rate risk, during the year, the Bank introduced floating base rates for all new long-term loans (18 months and more) which exceed equivalent of LVL 15,000. The floating base rates are reviewed by the Bank on a semi-annual basis. As at 31 December 1999, the total amount of outstanding loans which are subject to floating base rate is LVL 568 thousand. At the end of reporting year, the Bank also held floating rate bonds of credit institutions and privately held companies with the total carrying value of LVL 6,686 thousand.

### 30. RELATED PARTIES (LVL THOUSAND)

Related parties are defined as shareholders who have significant influence over the Bank, members of the Council and Board of Directors, key Management personnel, their close relatives and companies in which they have a controlling interest as well as subsidiaries and associated entities.

The following table provides the analysis of the Bank's Loans issued to related parties, net of provisions:

|  | 31/12/99   | 31/12/98   |
|--|------------|------------|
| Management of the Bank                                   | 5          | 5          |
| Related legal entities                                   | 370        | 386        |
| Other related private individuals                        | 4          | 2          |
| <b>Total loans to related parties, net of provisions</b> | <b>379</b> | <b>393</b> |
| Percentage of the Bank's equity (see Note 31)            | 8.3%       | 7.6%       |

As at 31 December 1999, the Bank had established specific provisions in the amount of LVL 255 thousand for the loans issued to related legal entities and in the amount of LVL 2 thousand - for the loans issued to related private individuals.

The terms of loans issued to related parties, as at 31 December 1999, can be specified as follows:

|  | Amount     | Terms |
|--|------------|-------|
| Management of the Bank                                   | 5          | 10%   |
| Related legal entities                                   | 370        | 2-11% |
| Other related private individuals                        | 4          | 0-19% |
| <b>Total loans to related parties, net of provisions</b> | <b>379</b> |       |

The Bank has also issued guarantees to related parties totalling LVL 11,660 for American Express credit cards. The guarantees are secured by deposits.

All related party deposits bear standard interest rates offered by the Bank. As at 31 December 1999, total deposits held by related parties at the Bank amounted to LVL 47,868.

### 31. CAPITAL ADEQUACY (LVL THOUSAND)

| Description  | Amount       |
|--|--------------|
| <b>Tier 1</b>  |              |
| - paid-in share capital  | 5,000        |
| - share premium  | 255          |
| - legal and other reserves   | 1,002        |
| - audited retained earnings/(deficit)  | (1,119)      |
| <i>less</i>  |              |
| - total par value of all preference shares   | -            |
| - accumulated deficit  | -            |
| - own shares held  | -            |
| - intangible assets (as defined by the Bank of Latvia)   | -            |
| - (loss) for the reporting year  | (576)        |
| <b>Total Tier 1</b>  | <b>4,562</b> |
| <b>Tier 2</b>  |              |
| - subordinated capital (restricted to 50% of Tier 1)   | -            |
| - audited profit for the current year (not subject to dividend distribution)   | -            |
| - general banking risk reserve (appropriated from retained earnings)   | -            |
| - fixed asset revaluation reserve (restricted to 70% of total increase in fixed assets value which has been certified by at least 2 independent valuers) | -            |
| - revaluation reserve for long-term investments in securities (restricted to 55% of total increase in long-term investments)                             | -            |
| <b>Total Tier 2</b>  | <b>-</b>     |
| <b>Equity to be utilised in the capital adequacy ratio under the Bank of Latvia's guidelines</b>   | <b>4,562</b> |
| <b>Additional Tier 1</b>   |              |
| - intangible assets  | -            |
| <b>Additional Tier 2</b>   |              |
| - general provision for possible credit losses (restricted to 1.25% of risk weighted assets)   | 104          |
| <b>Equity to be utilised in the capital adequacy ratio under of the Basle Committee guidelines</b>   | <b>4,666</b> |

Furthermore, the total of Tier 2 may not exceed the total of Tier 1.

The guidelines of the Bank of Latvia for calculations of capital adequacy differ slightly from the recommendations under the Basle Committee guidelines.

|  | Assets<br>as at<br>31/12/99 | Basle Committee guidelines |             |                                | Bank of Latvia guidelines |             |                                |
|--|-----------------------------|----------------------------|-------------|--------------------------------|---------------------------|-------------|--------------------------------|
|  |                             | Credit<br>equiva-<br>lent  | Rate<br>(%) | Weighted<br>Assets<br>31/12/99 | Credit<br>equiva-<br>lent | Rate<br>(%) | Weighted<br>Assets<br>31/12/99 |
| Assets   | 31/12/99                    |                            |             |                                |                           |             |                                |
| Cash and deposits with the Bank of Latvia            | 5,915                       |                            | 0%          | -                              |                           | 0%          | -                              |
| Balances due from:                                   |                             |                            |             |                                |                           |             |                                |
| - credit institutions within OECD area               | 18,799                      |                            | 20%         | 3,760                          |                           | 20%         | 3,760                          |
| - credit institutions within Latvia                  | 13                          |                            | 100%        | 13                             |                           | 20%         | 3                              |
| - credit institutions within the non-OECD area       | 7,772                       |                            | 100%        | 7,772                          |                           | 100%        | 7,772                          |
| Loans and advances to non-banking customers:         |                             |                            |             |                                |                           |             |                                |
| - secured by deposits                                | 4,808                       |                            | 0%          | -                              |                           | 0%          | -                              |
| - 80% risk weighted                                  | 2,971                       |                            | 100%        | 2,971                          |                           | 80%         | 2,377                          |
| - 100% risk weighted                                 | 1,661                       |                            | 100%        | 1,661                          |                           | 100%        | 1,661                          |
| Treasury bills and other fixed income securities of: |                             |                            |             |                                |                           |             |                                |
| - OECD area governments                              | 591                         |                            | 0%          | -                              |                           | 0%          | -                              |
| - Latvian government                                 | 177                         |                            | 100%        | 177                            |                           | 0%          | -                              |
| - OECD area credit institutions                      | 9,074                       |                            | 20%         | 1,815                          |                           | 20%         | 1,815                          |
| - non-OECD area governments and other issuers        | 7,915                       |                            | 100%        | 7,915                          |                           | 100%        | 7,915                          |
| Shares and other non-fixed income securities         | 1,132                       |                            | 100%        | 1,132                          |                           | 100%        | 1,132                          |
| Investments in associated entities                   | 94                          |                            | 100%        | 94                             |                           | 100%        | 94                             |
| Fixed assets and other assets                        | 2,857                       |                            | 100%        | 2,857                          |                           | 100%        | 2,857                          |
| Prepayments and accrued income                       | 1,376                       |                            | 100%        | 1,376                          |                           | 50%         | 688                            |
| <b>Total assets</b>                                  | <b>65,155</b>               |                            |             | <b>31,543</b>                  |                           |             | <b>30,074</b>                  |
| <b>Memorandum items</b>                              |                             |                            |             |                                |                           |             |                                |
| Outstanding guarantees                               |                             |                            |             |                                |                           |             |                                |
| - secured by deposit                                 | 102                         |                            | 0%          | -                              |                           | 0%          | -                              |
| - 100% risk weighted                                 | 102                         |                            | 100%        | 102                            |                           | 100%        | 102                            |
| Letters of credit                                    |                             |                            |             |                                |                           |             |                                |
| - secured by deposit                                 | 477                         |                            | 0%          | -                              |                           | 0%          | -                              |
| - 100% risk weighted                                 | 994                         |                            | 100%        | 994                            | 50%                       | 100%        | 497                            |
| Financial commitments                                |                             |                            |             |                                |                           |             |                                |
| - 0% risk weighted                                   | 775                         |                            | 0%          | -                              |                           | 0%          | -                              |
| - 80% risk weighted                                  | 168                         |                            | 100%        | 168                            |                           | 80%         | 134                            |
| - 100% risk weighted                                 | 1,024                       |                            | 100%        | 1,024                          |                           | 100%        | 1,024                          |
| Foreign exchange transactions                        |                             |                            |             |                                |                           |             |                                |
| - maturity less than 14 days                         | 390                         | 0%                         | 100%        | -                              | 0%                        | 20%         | -                              |
| - 0% risk weighted                                   | 1,119                       | 2%                         | 0%          | -                              | 2%                        | 0%          | -                              |
| - 100% risk weighted                                 | 5,137                       | 2%                         | 100%        | 103                            | 2%                        | 100%        | 103                            |
| <b>Total assets and memorandum items</b>             | <b>75,443</b>               |                            |             | <b>33,934</b>                  |                           |             | <b>31,934</b>                  |
| <b>Shareholders' equity</b>                          |                             |                            |             | <b>4,666</b>                   |                           |             | <b>4,562</b>                   |
| <b>Capital adequacy ratio (%)</b>                    |                             |                            |             | <b>13.7%</b>                   |                           |             | <b>14.3%</b>                   |
| Minimum capital adequacy ratio (%)                   |                             |                            |             | 8%                             |                           |             | 10%                            |

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and similar risks arising from the portfolio of assets of the Bank and the memorandum item exposures of the Bank.

According to the Bank of Latvia's requirements, the Bank's risk based capital adequacy ratio was 14.3%. The Bank of Latvia, the bank regulator for the country, requires Latvian banks to maintain a capital adequacy ratio based on Latvian financial statements prepared under Latvian accounting standards of 10% of risk weighted assets. The Bank's international risk based capital adequacy ratio as at 31 December 1999 was 13.7%, which exceeds the minimum ratio recommended by the 1988 Basle Committee guidelines of 8%.

### 32. CASH AND CASH EQUIVALENTS (LVL)

|  | 31/12/99          | 31/12/98          |
|--|-------------------|-------------------|
| Cash and demand deposits with the Bank of Latvia | 5,914,723         | 3,267,742         |
| Balances due from credit institutions            | 25,707,263        | 19,962,369        |
| State Treasury bills                             | -                 | 10,314            |
| Balances due to credit institutions              | (5,705,244)       | (1,849,915)       |
| <b>Total cash and cash equivalents</b>           | <b>25,916,742</b> | <b>21,390,510</b> |

### 33. LITIGATIONS AND CLAIMS

Based on the management information, one of the Bank's customers has filed a claim for compensation of damages in the amount of USD 77,000. The ultimate outcome of this litigation is currently uncertain, however, the Management believe that it will not result in a loss for the Bank.

### 34. SUBSEQUENT EVENTS

On 4 February 2000, the Ministry of Finance of Ukraine announced its offer to restructure Ukraine's outstanding bond indebtedness. Based on the terms of the offer, existing Ukrainian government bonds denominated in DEM and with original maturity 26 February 2001 can be exchanged at par to EUR and USD denominated bonds repayable by instalments till 2007 and bearing coupons of 10% and 11%. At the same time, zero coupon Ukrainian government bonds denominated in USD and with original maturity 22 September 2000 can be exchanged on the same conditions applying a coefficient of 94.614%.

By the initial closing date for acceptance of the offer by the holders of the bonds, the offer was accepted by the majority of the holders of the bonds eligible for the exchange. Accordingly, on 15 March 2000 the exchange offer was announced effective.

According to the terms of exchange, new bonds are issued based on the balances as at 15 March 2000 and will start to accrue coupon from that date on. The terms of exchange also state that the coupons of old bonds will be accrued up to 15 March 2000 and transferred to an AAA rated Central Bank on or before the exchange offer closing date. Based on the management information, the actual exchange of the bonds, as well as, the transfer of accrued coupons on the old bonds eligible for exchange to an AAA rated Central Bank has been postponed till April 2000.

As disclosed in Note 13, the Management of the Bank have used available quotations of restructured (new) Ukrainian government bonds to determine retrospectively the fair value of Ukrainian government bonds held by the Bank as at 31 December 1999.



**To the shareholders of  
a/s Aizkraukles banka**

1. We have audited the balance sheet of a/s Aizkraukles banka as at 31 December 1999, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements, which are set out on pages 17 to 34, are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our auditors' report dated 10 March 1999 on the Bank's financial statements for the year ended 31 December 1998 was qualified in respect of uncertainty as to the fair value of Ukrainian converted bonds. As described in Notes 8 and 13 to the financial statements, as at 31 December 1999, the Bank has established provisions for investments in Ukrainian government bonds, as deemed appropriate by the management based on their estimate of the fair value of these assets. The financial statements for the year ended 31 December 1998 have not been adjusted in respect of subsequently established provisions.
3. We conducted our audit in accordance with the 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.
4. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at 31 December 1999, its cash flows for the year then ended and, except for the impact, if any, of the matter discussed in paragraph 2 above, the results of its operations for the year then ended in conformity with International Accounting Standards.
5. Without qualifying our opinion on the Bank's financial position as at 31 December 1999, we draw your attention to the carrying value of the Bank's investments in Ukrainian government bonds (LVL 7,446 thousand as at 31 December 1999), representing a significant concentration risk for the Bank. Provisions have been established based on the best estimate of the fair value of Ukrainian government bonds. Due to the unstable situation in Ukraine, the estimate may not represent the ultimate recoverability of these investments.

ARTHUR ANDERSEN

A handwritten signature in black ink that reads "Arthur Andersen".

Riga, 21 March 2000

## STATEMENTS OF INCOME

FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2000 AND THE YEAR ENDED 31 DECEMBER 1999 (LVL)

|   | 01.01.2000.<br>* 31.03.2000. | 01.01.1999.<br>31.12.1999. |
|---|------------------------------|----------------------------|
| Interest income   | 949,675                      | 3,134,708                  |
| Interest expense  | (534,512)                    | (1,087,609)                |
| <b>Net interest income</b>                                    | <b>415,163</b>               | <b>2,047,099</b>           |
| Dividends received  | 3,790                        | 13,520                     |
| Commission and fee income                                     | 646,121                      | 2,332,267                  |
| Commission and fee expense                                    | (151,187)                    | (646,974)                  |
| <b>Net commission and fee income</b>                          | <b>494,934</b>               | <b>1,685,293</b>           |
| Profit/(loss) on securities trading and foreign exchange, net | 336,600                      | 995,957                    |
| Other operating income  | 7,063                        | 26,706                     |
| <b>Net operating income</b>                                   | <b>1,257,550</b>             | <b>4,768,575</b>           |
| Administrative expense  | (378,427)                    | (1,391,436)                |
| Amortisation and depreciation charge                          | (91,354)                     | (317,898)                  |
| Other operating expense                                       | (1,125)                      | (4,674)                    |
| Provision expense for possible credit losses                  | (20,691)                     | (3,766,682)                |
| Release of previously established provision                   | 3,581                        | 186,794                    |
| Extraordinary income  | 235                          |                            |
| <b>Profit/(loss) before taxation</b>                          | <b>769,769</b>               | <b>(525,321)</b>           |
| Taxes   | 4,857                        | (50,162)                   |
| <b>Net profit/(loss) for the year</b>                         | <b>764,912</b>               | <b>(575,483)</b>           |

Chairman of the Council



Aleksandrs Bergmanis

Chief Accountant



Zane Kurzemiece

\* The statement of income for the three month period ended 31 March 2000 is unaudited.

**BALANCE SHEETS AND MEMORANDUM ITEMS**

AS AT 30 MART 2000 AND 31 DECEMBER 1999 (LVL)

| <b>Assets</b>  | <b>* 31.03.2000.</b> | <b>31.12.1999.</b> |
|--|----------------------|--------------------|
| Cash and deposits with the Bank of Latvia  | 4,787,484            | 5,914,723          |
| Balances due from credit institutions  | 18,967,966           | 26,583,813         |
| Demand deposits  | 12,994,187           | 12,367,375         |
| Other balances   | 5,973,779            | 14,216,438         |
| Loans and advances to non-banking customers  | 12,012,484           | 9,440,495          |
| Treasury bills and other fixed income securities                                   | 19,921,329           | 17,756,982         |
| Shares and other non-fixed income securities                                       | 1,604,311            | 1,132,078          |
| Investments in associated entities   | 93,834               | 93,834             |
| Investments in subsidiaries  | -                    | -                  |
| Intangible fixed assets  | 120                  | 160                |
| Tangible fixed assets  | 2,548,505            | 2,631,863          |
| Other assets   | 177,742              | 225,128            |
| Prepayments and accrued income   | 1,149,935            | 1,375,732          |
| <b>Total assets</b>  | <b>61,263,710</b>    | <b>65,154,808</b>  |
| Funds under trust management   | 155,956              | 229,933            |
| <b>Total assets and funds under trust management</b>                               | <b>61,419,666</b>    | <b>65,384,741</b>  |
| <b>Liabilities and shareholders' equity</b>  |                      |                    |
| Balances due to credit institutions  | 8,092,081            | 6,209,073          |
| Demand deposits  | 6,304,692            | 5,705,244          |
| Term deposits and other deposits   | 1,787,389            | 503,829            |
| Deposits from the public   | 46,623,302           | 53,814,330         |
| Demand deposits  | 34,569,901           | 43,728,257         |
| Term deposits  | 12,053,401           | 10,086,073         |
| Other liabilities  | 952,417              | 263,211            |
| Deferred income and accrued expense  | 230,856              | 257,883            |
| Provisions for liabilities and charges   | 38,584               | 48,753             |
| Shareholders' equity   | 5,326,470            | 4,561,558          |
| Paid-in share capital  | 5,000,000            | 5,000,000          |
| Share premium  | 254,676              | 254,676            |
| Legal and other reserves   | 1,001,790            | 1,001,790          |
| Unappropriated retained earnings/ (deficit) for prior years                        | (1,694,908)          | (1,119,425)        |
| Unappropriated (deficit) for the reporting year                                    | 764,912              | (575,483)          |
| <b>Total liabilities and shareholders' equity</b>                                  | <b>61,263,710</b>    | <b>65,154,808</b>  |
| Funds under trust management   | 155,956              | 229,933            |
| <b>Total liabilities and shareholders' equity and funds under trust management</b> | <b>61,419,666</b>    | <b>65,384,741</b>  |
| <b>Memorandum items</b>  |                      |                    |
| Contingent liabilities   | 1,087,971            | 1,675,497          |
| Financial commitments  | 1,775,355            | 1,966,633          |
| Foreign exchange transactions, net   | 90,156               | 210,721            |

Chairman of the Council



Aleksandrs Bergmanis

Chief Accountant

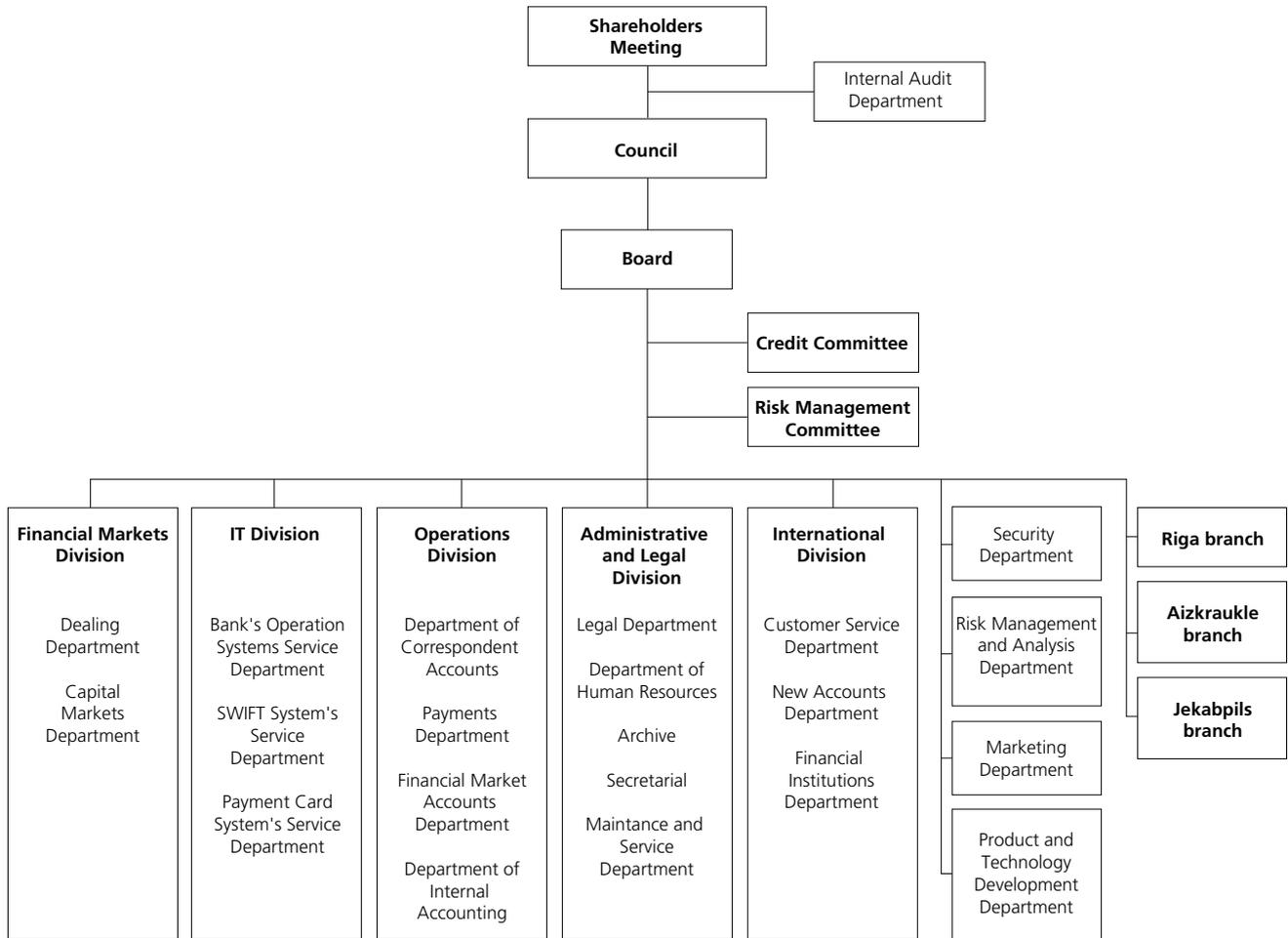


Zane Kurzemiece

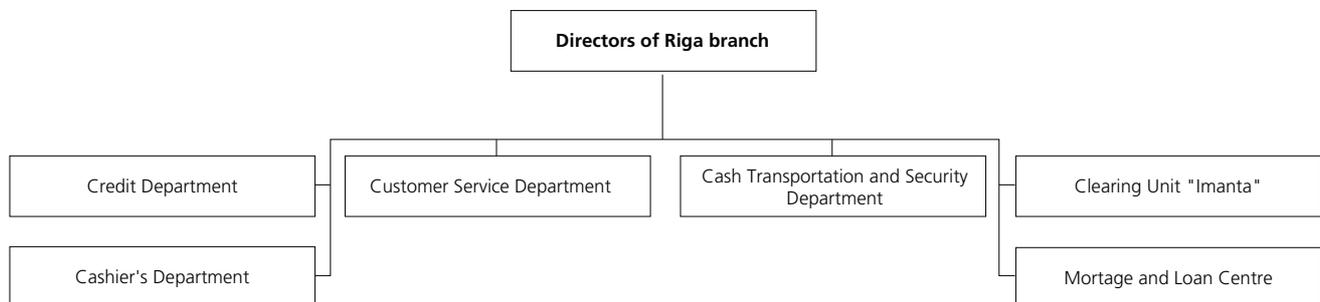
\* The balance sheet and memorandum items as at 31 March 2000 are unaudited.

## STRUCTURE OF THE BANK

AS AT 27 MARCH 2000\*



### THE STRUCTURE OF RIGA BRANCH, A DIVISION OF A/S "AIZKRAUKLES BANKA"



\* As approved at the Shareholders Meeting on 27 March 2000.

## MANAGEMENT OF THE BANK

AS AT 27 MARCH 2000\*

### COUNCIL OF THE BANK

|                           |                                |
|---------------------------|--------------------------------|
| <b>Ernests Bernis</b>     | Chairman of the Council        |
| <b>Jānis Krīgers</b>      | Deputy Chairman of the Council |
| <b>Vladimirs Kutovojs</b> | Deputy Chairman of the Council |

### BOARD OF DIRECTORS

|                             |                                       |
|-----------------------------|---------------------------------------|
| <b>Aleksandrs Bergmanis</b> | Chairman of the Board                 |
| <b>Oļegs Fiļs</b>           | Deputy Chairman of the Board          |
| <b>Pāvels Šnejersons</b>    | Member of the Board                   |
| <b>Aleksandrs Pāže</b>      | Member of the Board                   |
| <b>Zane Kurzemniece</b>     | Member of the Board                   |
| <b>Aivars Rauska</b>        | Member of the Board                   |
| <b>Māris Kannenieks</b>     | Candidate for the Member of the Board |

### DIRECTORS OF DIVISIONS

|                         |   |
|-------------------------|---|
| <b>Oļegs Fiļs</b>       | Head of the Financial Markets Division        |
|                         | Head of the IT Division                       |
| <b>Zane Kurzemniece</b> | Head of the Operations Division               |
| <b>Aleksandrs Pāže</b>  | Head of the Administrative and Legal Division |
| <b>Ernests Bernis</b>   | Head of the International Division            |

### DIRECTORS OF THE BRANCHES

|                          |                                   |
|--------------------------|-----------------------------------|
| <b>Pāvels Šnejersons</b> | Director of the Riga branch       |
| <b>Ņina Auziņa</b>       | Director of the Aizkraukle branch |
| <b>Viktors Krastiņš</b>  | Director of the Jekabpils branch  |

\* As approved at the Shareholders Meeting on 27 March 2000.

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