FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

PAREX

BANK

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REPORT OF THE BOARD OF DIRECTORS AND COUNCIL

The past year of 1998 was a year of challenges and successes for Parex Bank. It was a year of unprecedented fiscal pressures in the world economies and financial markets, and the turmoil tested the very fundamentals of financial systems in many countries, especially in the emerging markets. Already the financial communities in many emerging markets have sustained significant damage and a number of banks closed their doors. Only the most conservative and prudent survived and among those even fewer finished the past year with net profits. As at year end we were the largest Latvian bank in terms of Assets (increased by 21 %), Capital and Reserves (increased by 104 %), Deposits (increased by 23 %).

We at Parex Bank are indeed very proud to belong to this elite latter category, which very clearly affirms something we have always known and practised, and which is the core of our business philosophy - protect client assets and manage them with extreme caution and professionalism. We have practised this approach in the most bullish of market environments and in the most bearish, and the result is evident. The Russian crisis and its impact on the Latvian financial community has passed without causing Parex any material damage thanks to our stringent controls, risk management and prudent conservative management. Our credit risk management has over time produced one of the highest quality of leasing and loan portfolios - all while maintaining good performance and return on capital.

The past year was also a year of pivotal change. Having emerged from the crisis intact, Parex Bank is keen to build on this momentum and its management has launched a number of bank wide initiatives:

- Commitment to domestic markets - we feel that the Baltic markets offer the best overall business opportunities for traditional retail and corporate banking services and we are active in delivering a full spectrum of our products and services through our branch network which we seek to expand. Combined with our experience and strong positions in leasing and insurance, the Baltic markets will continue to provide stable revenue stream while helping those markets develop further. It is this area on which we remain focused and committed in the long term.

- Internal improvements - we have invested over $2mln in implementing new banking technologies which will make our services even more cost effective and accessible to an even greater client base. We have brought in experienced senior bankers to help us strengthen internal financial controls, risk management, and compliance practice and to bring these areas in line with best international practice. We continue to invest in training of our management and staff and are proud to boast to have a staff of highest standards of professionalism and integrity. Above all we have made a concentrated efforts to vastly improve corporate governance and transparency which we believe is the cornerstone for further growth of our business, both domestically and internationally.

- International exposure - during the year we have launched an aggressive program to develop relationships with international financial institutions, having established a representative office in Frankfurt. Our efforts culminated in receiving a $20mln syndicated loan at only 0.5% over LIBOR - this is a testament of how the western banks perceived Parex risk as very low indeed. A number of international development programs are under way building on the momentum and successes of last year. We have made considerable efforts in improving transparency and corporate governance and these efforts were recognised by the leading western banks in their desire to work with us.

In many ways the last year was a year of growth, successful projects, and most importantly, lessons learned. Because of our extensive international experience we have developed special insights into the dynamics of the Russian market environment and as a result have succeeded in protecting our client's assets from one of the worst financial crisis in recent memory. The trust our clients have placed in us over the years since the very beginning has once again been merited. The Bank has always maintained a careful balance of conservatism and opportunism, which has not only protected assets but allowed them to grow at above average rates of return.

The Board of Directors of the Bank recommended the transfer of the net profit for the year after taxation, amounting to LVL 1,210,000, to retained earnings, thereby increasing the Bank's equity capital and providing the base for the Bank's successful development in the future.

In conclusion, we remain resolute in pursuing the same conservative principles of managing risk and the same swiftness in identifying opportunities in the markets we know best. Domestically our financial performance clearly solidifies our position as the largest Latvian bank and one of the top Baltic banks. Internationally, few Baltic banks can match our business acumen when it comes to identifying opportunities and servicing our international clientele. Of all the advancements and achievements we made over the past year, none can approach the importance of one issue we hold in the highest regard - the continuing trust of our clients. In this world of financial turmoil and uncertainty in the emerging markets, in a landscape littered by failed banks and disappointed clients, Parex bank stands out as an island of stability and opportunity.

Valery Kargin
President,
Chairman of the Board

Viktor Krasovitsky
Chairman of Council of Directors

Gints Poišs
Chairman of the Council

Riga, 22 March 1999

KEY BUSINESS ACHIEVEMENTS AND INTERNAL IMPROVEMENTS IN 1998

- Best profitability in 1998 in the Latvian banking sector.

- Received a BB+ rating from Thompson Bankwatch.

- Minimum impact from the Russian crisis as a result of cautious conservative management as reflected in low exposure to the Russia and the CIS at the time of crisis. The Bank managed to structure all credit exposure to Russia and the CIS in a way that full unrestricted access to collateralised assets was secured. As a consequence the Bank is successful in maintaining an uninterrupted payments stream from assets liquidation or barter transactions.

- Syndicated loan for $20mln for 50 basis points above LIBOR, demonstrated the Bank's ability to borrow in crisis times at very attractive rates. Syndication participants included: WestMerchant Bank (WestLB Group), London; Bank of New York, London; SGZ-Bank, Frankfurt; Landesbank Schleswig-Holstein, Kiel; GZB-Bank, Stuttgart; RZB, Vienna; CIB, Budapest.

- Increase in corporate finance and syndication activity in the Baltics, building up a track record as Arranger, with emphasis on domestic currency for top tier Baltic clients, having received mandates for structured corporate and project finance, among others: Lattelekom, Latvenergo, Lithuanian Energy, City of Riga.

- Expanded product range to include asset management and brokerage services for a range of financial products in the Baltics and the CIS. Asset management services are provided to both domestic and non-resident corporate clients.

- Improvements in internal management and controls: creation of asset and liability management committee and risk management committee, consolidating finance and reporting function, budgeting and cost control, compliance function and development of IT and business systems.

- Transparency and Corporate Governance: the Bank has made a decisive shift in policy to vastly improve these areas and committed considerable management time to these important issues. Transparency and disclosure have been greatly improved as evidenced by this annual report, and corporate governance issues have been addressed by introducing new senior management (at Vice President level) who have day to day responsibility for overall bank management. A number of initiatives to facilitate further improvements are in progress and scheduled to be completed by end of 1999.

- Compliance Issues: with the introduction of Anti-Money Laundering Legislature this year, the Bank has fully embraced their agenda and requirements. Internally the Management has set up a Control department, which serves the compliance function and liases with the regulators.

- Formal recognition by German Bundesbank and German banking authorities by having been granted a Representative Office status in Frankfurt. The office is staffed with first rate German bankers having previously held executive positions in one of the largest German banks.

- Acquisitions: the Bank moved to consolidate control in the Baltics, and is in negotiations for purchasing a controlling interest in another bank active in the Baltic states.

- Key clients and client relationships: the Bank is successfully servicing key accounts - national utility, telecoms and energy companies, the State Treasury, and the US embassy in Latvia. The Bank also received lease-refinancing loans from the World Bank and is maintaining regular contact with international lending organisations (EBRD, PHARE, etc.) and is an active participant in various programs. In order to maintain the momentum, the Bank hired an experienced local banker to head up its Corporate and Private Banking area.

STATEMENT OF RESPONSIBILITY OF THE BOARD OF DIRECTORS AND COUNCIL

The management of the Bank are responsible for preparing financial statements from the books of prime entry of the Bank for each financial period that present fairly the state of affairs of the Bank as at the end of the financial year and the results of its operations and cash flows for that year.

The management confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements on pages 10 to 48 for the year ended 31 December 1998. The management also confirm that applicable International Accounting Standards have been followed and that the financial statements have been prepared on a going concern basis and comply with the Bank of Latvia regulations on Annual Reports of Credit Institutions in all material respects.

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

Valery Kargin
President,
Chairman of the Board

Viktor Krasovitsky
Chairman of Council of Directors

Gints Poišs
Chairman of the Council

Riga, 22 March 1999

MANAGEMENT OF THE BANK

THE COUNCIL OF THE BANK

Gints Poišs	Chairman of the Council
Vladislavs Skrebelis	Member of the Council
Juris Vanags	Member of the Council

THE BOARD OF DIRECTORS

Valery Kargin	President of the Bank and Chairman of the Board
Viktor Krasovitsky	Chairman of Council of Directors and Deputy Chairman of the Board
Ārija Zeltiņa	Member of the Board

On 12 February 1998, Vladislavs Skrebelis replaced Māra Mežniece as a member of the Council.

COUNCIL OF DIRECTORS

Alexander Kvasov Vice President	Responsible for Operations Division, covering client service (retail and corporate), card operations, settlements and branch management.
Jakov Shur Vice President	Responsible for Lending Operations, covering all lending, credit and leasing facilities to retail and corporate clients.
Gene Zolotarev Vice President	Responsible for Corporate Management, covering strategic development, risk management, operating controls and compliance, finance and budgeting, and international relations with key financial institutions.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF A/S PAREX BANK

PRICEWATERHOUSECOOPERS

BASIS OF OPINION

We have audited the financial statements of A/S «Parex Bank» for the period ended 31 December 1998 on pages 10 to 48. These financial statements are the responsibility of the Bank's management, as referred to in their Statement of Management Responsibilities on page 7. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain 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.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 1998 and the results of its operations and cash flows for the period then ended in accordance with International Accounting Standards.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 3 to the financial statements, which describes the exposure of the Bank to Russia and CIS. Based on the knowledge and understanding of the current economic and market conditions, management has made provisions for possible losses arising directly or indirectly from these conditions. The adequacy of these provisions is dependent upon factors that include the ongoing uncertainty in the markets and the risk of further default by Russian credit institutions or the Russian government.

PricewaterhouseCoopers

PricewaterhouseCoopers SIA
Riga, Latvia

22 March 1999

STATEMENT OF INCOME

LVL 000`s	Notes	1998	1997
Interest income	5	20,555	12,984
Interest expense	5	(6,288)	(3,661)
Net interest income		**14,267**	**9,323**
Commission and fee income	6	10,042	8,238
Commission and fee expense	6	(1,936)	(1,566)
Net commission and fee income		**8,106**	**6,672**
Profit on securities trading and foreign exchange, net	7	1,713	6,542
Other operating income	8	542	571
Net operating income		**24,628**	**23,108**
Administrative expense	9,10	(12,634)	(10,270)
Depreciation and amortisation expense		(2,318)	(1,560)
Other operating expense	11	(208)	(141)
Provision expense for possible credit losses	12	(10,533)	(2,651)
Release of previously established provision	12	3,507	1,641
Loss from revaluation of long term investments	12	(1,434)	-
Profit before taxation		**1,008**	**10,127**
Credit/(charge) for taxation	13	202	(1,049)
Net profit for the period		**1,210**	**9,078**

The financial statements on pages 10 to 48 have been approved by the Management of the Bank and signed on its behalf by:

Valery Kargin
President,
Chairman of the Board

Viktor Krasovitsky
Chairman of Council of Directors

Gints Poišs
Chairman of the Council

Riga, 22 March 1999

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

BALANCE SHEET AND MEMORANDUM ITEMS

LVL 000`s	Notes	31/12/98	31/12/97
Assets			
Cash and deposits with the Bank of Latvia	14	22,193	19,031
Balances due from credit institutions	12,15	18,000	26,711
Loans and advances to non-banking customers	12,16,17,18	151,624	80,575
Treasury bills and other fixed income securities	19,20	87,789	104,699
Shares and other non-fixed income securities	21	4,093	3,812
Investments in subsidiaries	22	189	7
Investments in affiliated entities	23	642	915
Intangible assets	24	385	464
Fixed assets	24	9,653	8,997
Other assets	25	3,321	1,848
Prepayments and accrued interest income		3,277	1,449
Total assets		**301,166**	**248,508**
Funds under trust management	32	26,777	47,213
Total assets and funds under trust management		327,943	295,721
Liabilities			
Balances due to credit institutions	26	39,593	12,157
Deposits from the public	27	217,199	200,528
Other liabilities	28	9,631	2,078
Accrued interest expense		825	275
Provision for liabilities and charges	29	166	928
Total liabilities		**267,414**	**215,966**
Shareholders' equity			
Paid-in share capital	30	30,000	11,029
Legal and other reserves		-	3,671
Retained earnings		3,752	17,842
Total shareholders' equity		**33,752**	**32,542**
Total liabilities and shareholders' equity		**301,166**	**248,508**
Funds under trust management	32	26,777	47,213
Total liabilities, shareholders' equity and funds under trust management		327,943	295,721
Memorandum items			
Contingent liabilities	31	2,497	2,113
Financial commitments	31	23,439	21,424
Foreign exchange transaction liabilities	31	37,447	46,490

The financial statements on pages 10 to 48 have been approved by the Management of the Bank and signed on its behalf by:

Valery Kargin
President,
Chairman of the Board

Viktor Krasovitsky
Chairman of Council of Directors

Gints Poišs
Chairman of the Council

Riga, 22 March 1999

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

STATEMENT OF CHANGES IN EQUITY

LVL 000`s	Share capital	Capital reserves	Retained profit	Total capital and reserves
Balance at 1 January 1997	11,029	3,671	8,764	23,464
Net profit retained for 1997	-	-	9,078	9,078
Balance at 1 January 1998	**11,029**	**3,671**	**17,842**	**32,542**
Issue of share capital	18,971	(3,671)	(15,300)	-
Net profit	-	-	1,210	1,210
Balance at 31 December 1998	**30,000**	**-**	**3,752**	**33,752**

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

STATEMENT OF CASH FLOWS

LVL 000`s	Notes	1998	1997
Cash inflow/(outflow) from operating activities			
Profit before taxation		1,008	10,281
Amortisation of intangible assets, depreciation of fixed assets and their write-offs		2,664	1,744
Increase/(decrease) in provisions		4,120	(1,983)
Loss from revaluation of foreign currency	7	1,674	314
Loss from revaluation of shares		1,434	-
(Increase) in prepayments and accrued interest income		(1,828)	(745)
(Increase) in other assets		(462)	(340)
Increase in accrued interest expense		550	76
(Decrease) in provisions for liabilities and charges		(762)	-
Increase/(decrease) in other liabilities		7,553	(517)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**15,951**	**8,830**
Decrease/(increase) in short-term investments		13,513	(42,916)
(Increase)/decrease in balances due from credit institutions		5,411	(5,493)
(Increase) in loans and advances to non-banking customers		(73,353)	(22,487)
Increase in balances due to credit institutions		9,205	6,408
Increase in deposits from the public		16,671	82,865
Increase/(decrease) in cash and cash equivalents from operating activities before income tax		**(28,553)**	**18,377**
Corporate income tax paid		**(809)**	**(1,203)**
Net cash and cash equivalents from operating activities		**(13,411)**	**26,004**
Cash inflow/(outflow) from investing activities			
(Purchase) of fixed assets		(3,241)	(3,027)
(Purchase)/disposals of equity investments in other entities and other long-term investments		2,253	(14,785)
Investment in shares and other non-fixed income securities		(1,460)	-
(Decrease) in cash and cash equivalents from investment activities		**(2,448)**	**(17,812)**
Net cash inflow for the period		**(15,859)**	**8,192**
Cash and cash equivalents at the beginning of the period	34	**31,833**	**23,955**
(Loss) from revaluation of foreign currency	7	(1,674)	(314)
Cash and cash equivalents at the end of the period	34	**14,300**	**31,833**

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

NOTES TO THE FINANCIAL STATEMENTS

note 1. BACKGROUND INFORMATION ON THE BANK

(Figures in parenthesis represent amounts at 31 December 1997.)

A/S «Parex Bank» was registered on 14 May 1992 as a joint stock company commercial bank. The Bank commenced its operations on June 1992.

The Bank's head office and three main branches are all located in Riga, Latvia. At 31 December 1998, the Bank operated in total 16 (15) branches and 47 (39) client service centres in Riga and throughout Latvia, as well as representative offices in Frankfurt and Glazhiten, Germany, in Moscow, Yekaterinsburg and Saint-Petersburg, Russia, in Kiev, Odessa and Dnepropetrovsk, Ukraine, in Minsk and Vitebsk, Belarus and in Alma-Ata, Kazakhstan, Kishinova, Moldova. The Bank also operated a jewellery retail store with 4 branches in Riga at 31 December 1998.

The Bank's main areas of operation include accepting deposits from the public, granting short-term and long-term loans to the State Treasury, local municipalities, corporate customers, private individuals and other credit institutions, dealing with financial lease and foreign currency exchange transactions, providing fund management and investment banking services for the Bank's customers as well as performing local and international payment transfers.

At 31 December 1998, the Bank had approximately 916 (760) employees, 2,635 (1,400) loan customers, 2,361 (1,240) finance lease customers, 41,000 (18,600) settlement cardholders and 40,003 (30,000) deposit customers. The major shareholders of the Bank were Europe Holding Ltd., a privately held company incorporated in the Isle of Man, 50.93% (50.93%), Mr. Valery Kargin 24.03% (24.03%) and Mr. Viktor Krasovitsky 24.03% (24.03%).

note 2. THE LATVIAN ECONOMIC AND BANKING ENVIRONMENT

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

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

During 1998 the Russian Rouble was re-denominated with 1 new rouble equivalent to 1,000 old roubles.

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

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

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

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

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

note 3. EXPOSURE OF THE BANK TO RUSSIA AND OTHER NON-OECD COUNTRIES AND ITS IMPACT ON THE BANK

On 17 August 1998 the Russian government and the central bank of the Russian Federation announced that a floating rouble rate was being introduced within limits of a currency corridor of 6 to 9.5 roubles against the US dollar. This represented a de facto devaluation of the Russian rouble. A 90-day moratorium was also announced on the repayment of foreign financial loans, credit insurance payments and capital transactions in foreign currency. Subsequently, buy-sell operations with redeemable Russian government bonds were suspended until their redemption.

The Russian government has drawn a distinction between Russia's foreign debts that were inherited from the Soviet Union («former Soviet» debt) and those foreign debts entered into since becoming an independent sovereign country («post - Soviet» debt).

Russian government US Dollar (USD) denominated Eurobonds and Min-Fins

The Russian government has said that it is committed to honouring its post - Soviet foreign debt including Eurobonds. The so-called «Min-Fin» obligations of the Russian Ministry of Finance were originally issued as domestic debt, but are denominated in USD and widely held by foreign institutions. The interest coupons on post - Soviet Russian Eurobonds and Min-Fin bonds to date have been honoured. However to continue to honour in full the 1999 commitments on these bonds, will require the Russian government to successfully adhere to its 1999 planned budget, and to agree further funding from the IMF which has been included in the budget. The planned budget for 1999 has been criticised by the IMF as setting unrealistic revenue targets, underestimating inflation and forecasting a stronger rouble than is expected. The IMF funding has not yet been made available and negotiations are continuing.

The first significant repayment of principal on post - Soviet USD denominated bonds is the Min-Fin 3 bond, due to be redeemed on 14 May 1999. The Min-Fin 3 is currently trading in an illiquid market at around 40 % of face value. The price reflects a number of factors, including the continued uncertainty relating to Russian government negotiations with the IMF, and the ability and commitment of the Russian government to honour the repayment.

Russian government Rouble (RUR) denominated GKOs and OFZs

GKOs represent Russian government short-term, zero-coupon bonds and OFZs represent Russian government bonds with fixed and floating coupons. Both GKOs and OFZs are RUR denominated and domestically issued.

The conditions for a so-called «Novation deal» have been announced for redeeming those GKOs and OFZs issued before 17 August 1998 and with original maturity before 31 December 1999. The Novation deal replaces old GKOs and OFZs with a combination of new GKOs and OFZs, having maturities between 3 months and up to 5 years, plus partial redemption for cash in roubles. Restrictions are expected over the use of the roubles now and in the future. There remains significant uncertainty, regarding the rates that would be obtained in conversion of roubles to dollars through future monthly auctions, and regarding the rate of inflation likely to prevail in Russia in future.

Some international analysts believe that the Novation could be worth as little as 3 % of the original dollar value of the bonds as at 14 August 1998, based on discount of the future expected cash flows and estimates of further depreciation in the value of the rouble.

International investors in general have not welcomed the Novation deal and are openly critical of its terms. The deadline for acceptance of these terms by foreign creditors has been extended several times, the latest deadline being 30 April 1999. A number of the foreign creditors have been trying to negotiate improved terms, but as of now no agreement has been reached.

THE BANK'S EXPOSURE TO RUSSIA AND OTHER NON-OECD COUNTRIES

A/S «Parex Bank» has emerged from the Russian crisis with relatively minimal negative impact on its overall business. This came as a result of the Bank's conservative risk management policies, which guided the Bank's decisions to drastically reduce Russia related exposure prior to August 1998. Moreover, the Management of the Bank acted swiftly in making specific provisions where appropriate and this had led to a well managed repositioning of the balance sheet. Set out below is a summary of the Bank's exposure to non-OECD countries and below that a description of the major components of the Russian exposure.

EXPOSURE TO NON-OECD COUNTRIES

Balances due from credit institutions registered in non-OECD countries (excluding Latvia)		**31/12/98**	
LVL 000`s	Gross amount	Provision	Net amount
Russia	4,026	850	3,176
Ukraine	2,769	84	2,685
Belarus	111	11	100
Kazakhstan	102	10	92
Other countries	969	-	969
	7,977	**955**	**7,022**
General provision for balances due from non-OECD banks	-	142	(142)
Total balances due from credit institutions registered in non-OECD countries (excluding Latvia)	**7,977**	**1,097**	**6,880**

Non-OECD Treasury bills and other fixed income securities (excluding Latvia)

LVL 000`s	31/12/98 Gross amount	Provision	Net amount
Non-OECD Treasury bills:			
Russian Treasury bills (GKOs)	205	196	9
Total non-OECD Treasury bills	**205**	**196**	**9**
Non-OECD Government bonds, USD denominated:			
Slovenia	2,177	-	2,177
Croatia	2,172	-	2,172
Kazakhstan	1,422	97	1,325
Slovakia	1,148	-	1,148
Romania	986	-	986
Russia (held at market value)	454	-	454
Lithuania	217	-	217
Total government bonds	**8,576**	**97**	**8,479**
Non-OECD municipality bonds:			
Russia	201	185	16
Total non-OECD municipality bonds	**201**	**185**	**16**
Non-OECD credit institution bonds, USD denominated:			
Vneshekonombank (Russian government/former Soviet PRINs)	357	301	56
Vneshekonombank (Russian government/former Soviet IANs)	7	4	3
Total non-OECD credit institution bonds	**364**	**305**	**59**
Total non-OECD Treasury bills and other fixed income securities (excluding Latvia)	**9,346**	**783**	**8,563**

Equity shares in non-OECD corporate entities (excluding Latvia)

LVL 000`s	31/12/98 Gross amount	Provision	Net amount
Russia (held at market value)	257	-	257
Ukraine (held at market value)	55	-	55
Lithuania	24	-	24
	336	**-**	**336**
General provision for non-OECD equity shares	-	24	(24)
Total equity shares in non-OECD corporate entities (excluding Latvia)	**336**	**24**	**312**

Loans to non-banking customers registered in the CIS countries

LVL 000`s	31/12/98 Gross amount	Provision	Net amount
Russia	3,242	2,059	1,183
Other CIS countries	890	91	799
Total loans to non-banking customers registered in the CIS countries	**4,132**	**2,150**	**1,982**

In order to fully understand the business dynamics that drove the Bank’s decision processes pre and post crisis, it would be appropriate to review each area of exposure individually and discuss the Bank’s approach to its treatment and provisioning policy.

Russian banks: The Bank's exposure to Russian banks consisted of overnight funds on correspondent accounts and foreign exchange forward contracts. Since correspondent accounts used to hold significant funds were only with large and stable banks (International Moscow Bank and RZB's Russian subsidiary) the only provisioning made was to cover potential transaction related losses from small Russian banks that may indeed experience problems as a result of crisis. The average balances on correspondent accounts remained relatively consistent throughout the entire year. With regard to this position, the Bank's provisioning is 21% on balances due from banks, and 80% on forward contracts. The forward contracts principally reflected a hedge on a contra contract between the bank and a third party. The provisioning prudently reflects the management's view on the ultimate net outcome of these two linked transactions.

Russian government GKO's: The Bank acted swiftly when the GKO yields began to grow in May 1998, which the Management judged as a dangerous and volatile situation, and moved to rapidly reduce the GKO portfolio. By 14 August 1998 it was significantly reduced to a relatively immaterial holding. The Bank's provisioning for the current GKO portfolio is 96.5 % of face value.

RUR denominated bonds: While the Bank had underwritten significant municipal bond placements throughout 1998, by the time the crisis started, these were placed with international and domestic investors leaving only a relatively small proprietary position. With regard to this position, the Bank's provisioning is 92% of cost.

USD denominated Russian bonds: The Bank had maintained small proprietary positions in MinFin 3 bonds (held at market value) and Vneshekonombank bonds (Russian government/former Soviet IANS and PRINS) prior to the crisis. With regard to our holdings at year end the Bank has provided against 90% and 95% of face value respectively.

Equities: The Bank had maintained an active trading business in Russian equities both on its proprietary positions and on behalf of clients. This activity was sharply curtailed in May 1998 at about the same time a decision to reduce the GKO portfolio was made, thus minimising potential losses. The balance of the equities exposure is marked to market as is reflected in our financials.

Corporate loans: The Bank had a moderate lending program which relied on two fundamental principles which are the cornerstone of our credit policy - liquid and accessible collateral, and close familiarity with the borrower. All credit exposure was and is always fully collateralised and the Bank proved effective in collecting and liquidating collateral when appropriate to maintain a steady revenue stream to the loan portfolio. Nevertheless, the provisioning ratio for outstanding loans is 63% to account for collateral liquidity and collection inefficiencies.

Indirect exposure: The Bank has carefully assessed its exposure in credit and trading facilities extended to domestic corporate clients which may experience adverse business environment due to dependence on the Russian market. At year end management identified two loans which may be significantly impacted by the indirect exposure but these constitute less than 0.1 % of the domestic loan portfolio and in addition the Bank had required these clients to provide additional collateral to further secure any outstanding credit exposure. Nevertheless, the Bank applies a general provision of 2% on its domestic loan book to cover eventualities not specifically considered.

Overall in management's view, the Bank's position on business with Russia can be summarised as extremely cautious. The Bank will not consider new lending relationships and will focus on collecting outstanding debts and liquidating collateral which is transferred as a consequence of non-repayment. Existing clients active on the Russian market will continue with limited access to their credit facilities, which have been both reduced and heavily scrutinised by the Bank's credit and risk analysts. All such facilities are secured by deposits in hard currency, investment grade securities or similar quality liquid assets. The Bank, however, is willing to capitalise on its strong brand image on the Russian market and its reputation as a reliable financial institution, and consider selected transactions preferably with no credit exposure. These opportunities will, of course, be heavily scrutinised and will have a short-term transaction timetable, and be fully secured.

note 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank maintains its books of account and prepares financial statements for regulatory purposes in Lats, in accordance with accounting principles and practices employed by domestic banks as required by stipulations of the Bank of Latvia and other Latvian accounting regulations applicable for credit institutions. The accompanying financial statements reflect certain adjustments made in respect of the Bank's monthly report to the Bank of Latvia as at 31 December 1998.

A summary of the principal accounting policies all of which have been applied consistently (unless otherwise stated) throughout the 12 month period ended 31 December 1998 and in the preceding 12 month period ended 31 December 1997, is set out below.

A) Reporting Currency
The accompanying financial statements are reported in thousands of Lats (LVL 000's).

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.

C) Basis of Presentation
The financial statements are presented in accordance with International Accounting Standards, in all material respects.

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 I) in which interest is unlikely to be collected. Interest income that has been previously recognised is reversed at the time the related loan is placed on non-performing status.

Commissions and other income are credited to the statement of income at the time of the related business.

E) Foreign Currency Translation
Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

F) Taxation
Corporate income tax is applied at the rate of 25% on taxable income generated by banks for the tax period. To promote foreign investments in Latvia, the tax authorities have granted foreign majority owned companies as defined by Latvian legislation, which have registered prior to 1 April 1995, a tax holiday. As a result, the Bank is currently eligible for a 50% tax holiday and is accordingly subject to 12.5% corporate income tax on taxable income.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the statutory accounts and tax returns and/or between the statutory accounts 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 temporary timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax depreciation on buildings, transport vehicles and office equipment and the treatment of general provisions.

G) Loans and Advances to Non-banking Customers
Loans and advances to non-banking customers represent the outstanding principal balance less provisions for losses on loans and advances.

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

H) 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.

I) 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 14 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 has granted commercial and consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the borrowers' ability to repay their debts. 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 represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The specific element of the provision relates to credits that have been identified as potentially doubtful. The specific provision is determined after individually reviewing all credits for potentially uncollectable amounts. 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, but have not yet been specifically identified.

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 estimated figures for the following:

- specific provision for credits 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 considering 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, the estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting loan and advance collectability and collateral values. Ultimate losses may vary from the current estimates.

These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known. Due to an inherent lack of reliable information about the customers' financial position, the estimate of probable losses is uncertain. Nevertheless, the Management of the Bank have made their best estimates of losses and believe those estimates presented in the financial statements are reasonable in light of available information.

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

J) Treasury Bills and Other Fixed Income Securities
Treasury bills and other fixed income securities are held both for investment purposes and as part of a trading portfolio. The split of fixed income securities held for investment and trading purposes is based on the Management's intention at the time of their purchase to hold these instruments.

Treasury bills held for investment purposes are stated at the discounted purchase price plus the discount which is amortised to interest income from securities on a linear basis over the period from purchase to maturity. Treasury bills held as part of the trading portfolio are marked to market.

Bonds are recorded at their market value.

Fixed income securities held with custodian banks are stated in the balance sheet at their market value.

K) Shares and Privatisation Certificates
Investments in listed shares and privatisation certificates held for trading purposes are recorded at their market value.

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

Investments in shares held for investment purposes are stated in the balance sheet at cost, less any provision for other than temporary diminution in value determined on an individual investment basis.

Unrealised losses resulting from the permanent diminution in value of shares held for investment purposes are charged to the statement of income as loss from revaluation of long-term investments.

L) Jewellery
Jewellery is recorded in the balance sheet at lower of cost and realisable value.

M) Investments in Subsidiaries and Affiliated Entities
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 22.

Investments in affiliated entities, in which the Bank owns directly and indirectly more than 20% but less than 50% of the voting rights, are accounted for under the equity method. This method is appropriate as the Bank's investment interests enable the Bank to influence, but not ultimately control, the operating or financial decisions of these entities. Under this method, the Bank includes investments in affiliated entities as long-term assets valued at the original cost of the investment adjusted for a prudent estimate of the Bank's share of the post acquisition earnings or losses of the investment, adjusted for dividend income received. The adjustment is recorded on a regular basis to the income statement in respect of the changes occurring during the year. This method is also used for non-consolidated subsidiaries.

N) Intangible Assets
Costs related to leasehold rights are regarded as intangible assets. The leasehold rights are amortised over the remaining lease contract period on a straight-line basis.

O) 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.

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

Depreciation is calculated using the straight-line method of depreciation based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual Rate
Buildings	2.5% - 20%
Leasehold improvements	10%
Transport vehicles	20%
Office equipment	20% - 33%

Assets under the course of construction are not depreciated. Costs related to the purchase and development of computer software are regarded as fixed assets. These assets are initially measured and capitalised in the balance sheet at cost. Amortisation of the assets will be provided to write off the cost related to computer software on a straight-line basis over a five-year period from the date of finalisation of installation.

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

P) Sale and Repurchase Agreements
These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Bank is the transferor, assets transferred remain on the Bank's balance sheet and are subject to the Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Where the Bank is the transferee, the assets are not included in the Bank's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

Q) 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.

Subsequent to initial recognition and measurement, receivables and payables arising from outstanding forward foreign exchange rate contracts, which are not classified as hedging instruments, are re-measured and carried in off-balance sheet accounts at the fair value.

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

A gain or loss from a change in the fair value of receivables and payables arising from outstanding forward foreign exchange rate contracts accounted for as a hedge is recognised in the statement of income when the corresponding loss or gain from a change in the fair value of the completely hedged position is recognised in the statement of income.

Off-balance sheet financial assets and financial liabilities arising from currency swap deals involving an initial exchange of the principal which is then re-exchanged at a predetermined rate on the maturity of the swap are carried in off-balance sheet accounts at the rate of exchange prevailing at the end of the reporting period.

■ 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 when the commitment is established.
The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for loans and advances to customers as described in paragraph I) above.

R) Trust Activities

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not separately included in the balance sheet. As required by the Bank of Latvia the total assets and funds under trust management and the equal and opposite liability to trust customers are reported on both sides of the balance sheet.

S) Fair Values 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 book values, such fair values are separately disclosed in the notes to the accounts.

T) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with the Bank of Latvia and other credit institutions less demand deposits taken from other credit institutions.

note 5. INTEREST INCOME AND EXPENSE

LVL 000`s	**1998**	**1997**
Interest income		
interest on balances due from credit institutions	2,638	2,798
interest on loans and advances to non-banking customers	12,149	6,867
interest on Treasury bills and other fixed income securities	5,768	3,319
Total interest income	**20,555**	**12,984**
Interest expense		
interest on balances due to credit institutions	(661)	(35)
interest on deposits from the public	(5,627)	(3,626)
Total interest expense	**(6,288)**	**(3,661)**
Net interest income	**14,267**	**9,323**

note 6. COMMISSION AND FEE INCOME AND EXPENSE

LVL 000`s	1998	1997
Commission and fee income		
cash disbursement/transaction commission	1,029	1,043
service fee for account maintenance	1,595	478
payment transfer fee	2,988	3,508
customs declarations	190	110
securities	449	350
credit lines	78	496
transactions with settlement cards	2,716	1,130
review of loan applications and collateral evaluation	773	216
letters of credit	159	824
cash collection	65	83
Total commission and fee income	**10,042**	**8,238**
Commission and fee expense		
fees related to correspondent accounts	(1,936)	(1,566)
Total commission and fee expense	**(1,936)**	**(1,566)**
Net commission and fee income	**8,106**	**6,672**

note 7. PROFIT ON SECURITIES TRADING AND FOREIGN EXCHANGE

LVL 000`s	1998	1997
Profit from currency exchange operations	5,206	5,613
(Loss)/profit from trading and revaluation of securities	(317)	1,269
Profit/(loss) from purchase and/ or sale of other financial instruments	110	(26)
Loss from revaluation of foreign currency positions	(1,674)	(314)
Loss from revaluation of off balance sheet foreign currency positions (note 31)	(1,612)	-
Profit on securities trading and foreign exchange, net	**1,713**	**6,542**

note 8. OTHER OPERATING INCOME

LVL 000`s	1998	1997
Net proceeds from sale of jewellery	315	345
Income from dividends received	87	37
Safety boxes rental income	61	59
Other operating income	79	130
Total other operating income	**542**	**571**

note 9. ADMINISTRATIVE EXPENSE

Administrative expense comprises the following items:

LVL 000`s	1998	1997
Remuneration and related social security expense	5,625	3,974
Advertising, marketing and sponsorship	1,416	1,864
Repairs and maintenance	1,199	877
Communications (telephone, telex, mail)	1,225	845
Rent for premises	527	526
Consulting and professional fees	253	258
Travel and representation	1,132	578
Car maintenance	337	230
Security	270	252
Insurance	21	279
Property tax	114	145
Land tax	9	9
Other administrative expense	506	433
Total administrative expense	**12,634**	**10,270**

note 10. REMUNERATION AND RELATED SOCIAL SECURITY EXPENSE

Remuneration and related social security expense includes remuneration to the personnel of the Bank and related social security tax and other benefits costs. The President and the Deputy Chairman of the Board of the Bank have not received any remuneration in respect to their employment. The Council members receive no remuneration in respect of their position.

LVL 000`s	1998	1997
Remuneration to other personnel	4,439	3,125
Social security expense	1,186	849
Total remuneration and related social security expense	**5,625**	**3,974**

The total number of personnel employed by the Bank is specified as follows:

	1998	1997
Members of the Council	3	3
Members of the Board	3	3
Other personnel	910	754
Total number of personnel employed	**916**	**760**

note 11. OTHER OPERATING EXPENSE

LVL 000`s	1998	1997
Expense related to the delivery of bank notes	50	66
Penalty fees	17	3
Other operating expense	141	72
Total other operating expense	**208**	**141**

note 12. PROVISION EXPENSE FOR POSSIBLE CREDIT LOSSES AND RELEASE OF PREVIOUSLY ESTABLISHED PROVISION

An analysis of the change in provision for possible credit losses is presented as follows:

LVL 000`s	1998	1997
Specific provision at the beginning of the period	5,708	7,935
General provision at the beginning of the period	1,382	1,138
Total provision at the beginning of the period	**7,090**	**9,073**
Specific provision charged to statement of income	9,629	2,407
General provision charged to statement of income	904	244
Total provision charged to statement of income	10,533	2,651
Release of previously established specific provision	(3,507)	(1,641)
Increase/(decrease) in provision due to currency fluctuations	(118)	266
Provision expense, net	**6,908**	**1,276**
Reversal of specific provision due to write-offs	**(3,551)**	**(3,259)**
Specific provision at the end of the period	8,161	5,708
General provision at the end of the period	2,286	1,382
Provision for possible credit losses at the end of the period	**10,447**	**7,090**

Reversal of specific provision due to write-offs includes a write down of Russian government securities of LVL 1,954,000. Further specific provisions of LVL 501,000 remain at 31 December 1998 against the remaining outstanding balance of such securities.

The table below shows the division of the provision for credit losses as at 31 December 1998.

LVL 000`s					31/12/98	31/12/97
	Gross outstanding balance	Specific provision	Diminution of L/T investments	General provision	Net outstanding balance	Net outstanding balance
Due from credit institutions	19,097	955	-	142	18,000	26,711
Loans and advances to non-banking customers	159,974	6,577	-	1,773	151,624	80,575
Fixed income securities	88,744	629	-	326	87,789	104,699
Non-fixed income securities	5,272	-	1,155	24	4,093	3,812
Investments in subsidiaries	196	-	7	-	189	7
Investments in affiliates	914	-	272	-	642	915
Guarantees issued	2,518	-	-	21	2,497	2,113
Total	**276,715**	**8,161**	**1,434**	**2,286**	**264,834**	**218,832**

The movement in provision for diminution in value of long term investments during 1998, amounting to LVL 1,434,000, has been charged to the profit and loss account. The balance of LVL 1,155,000 against non-fixed income securities represents an adjustment for diminution in value of the Bank's strategic investment in Unibank of Latvia shares.

The Bank's Management have evaluated its exposure to the inter-bank market and recognise that a number of the exposures in Russia and CIS are of a relatively high-risk nature. Specific provisions have been made where considered appropriate.

The Management have adopted a 2% general credit loss provisioning policy for performing loans and advances excluding loans that are considered to be zero credit risk. The Management of the Bank believe that such a provisioning policy is appropriate and prudent under the current circumstances.

note 13. TAXATION

According to Latvian tax legislation relating to foreign investment, the Bank is eligible for a 50% tax holiday for five years from 1 January 1997, and is accordingly subject to 12.5% income tax on taxable income.

Previously the Bank had assumed its tax holding started from 30 April 1996. However, following recent clarification of the law, the 50% tax holiday was deemed to have commenced from 1 January 1997. The amount of LVL 610,000 represents the overpayment of income tax paid in respect of 1996 income, due to the change in the application of tax law.

The effective tax charge of 40% of profit before tax of the Bank in the year (compared to the expected rate of 12.5%) arises principally from temporary timing differences being the disallowance for tax purposes of some of the provisions made during the year that is only partly offset by the additional tax depreciation allowed on fixed assets compared to the accounting depreciation.

The Management of the Bank have assessed the calculation of deferred tax. As at 31 December 1998 the Bank had a net deferred tax asset of an immaterial amount that has not been taken into the balance sheet.

Taxation expense is comprised of the following items:

LVL 000`s	**1998**	**1997**
Corporate income tax charge	408	1,049
Release of corporate income tax overpaid in 1996	(610)	-
(Credit)/charge for corporate income taxation	**(202)**	**1,049**

note 14. CASH AND DEPOSITS WITH THE BANK OF LATVIA

Cash and deposits with the Bank of Latvia include the following:

LVL 000`s	**31/12/98**	**31/12/97**
Cash	12,662	11,398
Deposits with the Bank of Latvia	9,531	7,633
Total cash and deposits with the Bank of Latvia	**22,193**	**19,031**

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

According to the resolution No. 33/4 of the Council of the Bank of Latvia, credit institutions should comply with a compulsory reserve requirement.

This compulsory reserve must be exceeded by a credit institution's average monthly balance in Lats on its correspondent account with the Bank of Latvia plus cash in Lats. For the purposes of review of the compliance with the compulsory reserve requirement, the average monthly cash in Lats may not exceed the average monthly Lats balance held with the Bank of Latvia. A/S «Parex Bank» was in compliance with this regulation at 31 December 1998.

note 15. BALANCES DUE FROM CREDIT INSTITUTIONS

LVL 000`s	31/12/98	31/12/97
Due from credit institutions registered in OECD area	8,263	12,821
Due from credit institutions registered in Latvia	2,857	1,555
Due from credit institutions registered in other countries	7,977	12,596
Total gross balances due from credit institutions	**19,097**	**26,972**
Less provision for possible credit losses (see Note 12)	(1,097)	(261)
Total net balances due from credit institutions	**18,000**	**26,711**

Maturity profile	Due from credit institutions registered in				
	OECD	Latvia	Other	Total	Total
LVL 000`s	area		countries	31/12/98	31/12/97
Correspondent accounts	5,332	857	4,580	10,769	15,419
Overnight deposits	2,293	2,000	1,025	5,318	4,060
Total demand deposits	**7,625**	**2,857**	**5,605**	**16,087**	**19,479**
Term deposits to credit institutions:					
due within 1 month	342	-	66	408	4,805
due within 1 - 3 months	151	-	2,090	2,241	1,859
due within 3 - 6 months	98	-	216	314	176
due within 6 - 12 months	47	-	-	47	653
Total term deposits	**638**	**-**	**2,372**	**3,010**	**7,493**
Less provision for possible credit losses (see Note 12)	-	-	(1,097)	(1,097)	(261)
Total net balances due from credit institutions	**8,263**	**2,857**	**6,880**	**18,000**	**26,711**

note 16. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

(A) Loans and advances to non-banking clients

Loans and advances to non-banking clients comprise the following:

LVL 000`s	31/12/98	31/12/97
Regular loans	74,823	38,227
Loans under reverse repurchase agreements	-	850
Utilised credit lines	36,735	28,062
Total gross loans to non-banking customers	**111,558**	**67,139**
Finance leases	45,697	17,055
Overdraft facilities on demand deposit accounts	2,527	720
Debit balances on settlement cards	192	1,708
Total other credit balances	**2,719**	**2,428**
Total gross loans and advances to non-banking customers	**159,974**	**86,622**
Less provision for possible credit loses (see Note 12)	(8,350)	(6,047)
Total net loans and advances to non-banking customers	**151,624**	**80,575**

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 (see Note 35 for the definition of equity under the Latvian banking legislation) and the total credit exposure to all related parties may not exceed 15% of equity.

As at 31 December 1998, the Bank was in compliance with the legal requirement set for the total amount of non-zero risk credit exposure to related parties and non-related entities.

(B) Finance leases by type of investments

LVL 000`s	31/12/98	31/12/97
Manufacturing equipment	7,868	3,142
Transport vehicles	15,502	5,216
Real estate	8,560	3,172
Gasoline retailing stations	238	426
Other	13,529	5,099
Total gross finance leases	**45,697**	**17,055**

(C) Loans by customer profile

LVL 000`s	31/12/98	31/12/97
Government	910	-
Local municipalities	2,867	70
State owned enterprises	320	341
Municipalities enterprises	-	137
Privately held companies	138,786	75,376
Total gross loans and advances to corporate customers	**142,883**	**75,924**
Personnel employed by the Bank	584	320
Other private individuals	16,507	10,378
Total gross loans and advances to non-banking customers	**159,974**	**86,622**
Less provision for possible credit loses (see Note 12)	(8,350)	(6,047)
Total net loans and advances to non-banking customers	**151,624**	**80,575**

(D) Loans by industry sector

An industry analysis of the gross portfolio of loans and advances to enterprises before provisions for possible credit losses comprises of:

LVL 000`s	31/12/98	31/12/97
Manufacturing	18,461	7,022
Trade	32,114	13,478
Transport and communications	24,160	11,446
Electricity, gas and water supply	317	149
Agriculture and forestry	1,288	523
Financial intermediation	34,461	29,366
Construction	2,420	1,389
Fishing	925	849
Hotels and restaurants	1,867	1,221
Other industries	26,870	10,481
Total gross loans and advances to corporate customers	**142,883**	**75,924**

(E) Loans by geographical profile

The following table represents geographical profile of the portfolio of loans and advances to non-banking customers analysed by the place of customer's residence:

Geographical profile

LVL 000`s	31/12/98	31/12/97
OECD region residents	42,590	22,375
Latvian residents	96,730	53,596
Non-OECD region residents	20,654	10,651
Total gross loans and advances to non-banking clients	**159,974**	**86,622**
Less provision for possible credit losses (see Note 12)	(8,350)	(6,047)
Total net loans and advances to non-banking customers	**151,624**	**80,575**

(F) Loans by maturity profile

The table below provides the division of outstanding loans and advances to non-banking customers by maturity profile.

Maturity profile

LVL 000`s	31/12/98	31/12/97
Overdue	6,378	5,241
Falling due within		
1 month	24,096	10,026
1 - 3 months	21,581	8,909
3 - 6 months	23,621	15,349
6 - 12 months	22,338	7,739
1 - 5 years	41,485	27,599
more than 5 years	20,475	11,759
Total gross loans and advances to non-banking customers	**159,974**	**86,622**
Less provision for possible credit losses (see Note 12)	(8,350)	(6,047)
Total net loans and advances to non-banking customers	**151,624**	**80,575**

The table below presents the division of overdue loans and advances to non-banking customers by year of issuance:

1992	1993	1994	1995	1996	1997	1998	Total
321	688	1,154	1,199	925	645	1,446	6,378

note 17. NON ACCRUAL LOANS

The following table provides the aggregate amount of outstanding loans and advances to customers for which interest is not being accrued at 31 December 1998.

Interest accrual basis

LVL 000`s	31/12/98	31/12/97
Accrual basis	153,596	80,232
Non-accrual basis	6,378	6,390
Total gross loans and advances to non-banking customers	**159,974**	**86,622**
Less provision for possible credit losses (see Note 12)	(8,350)	(6,047)
Total net loans and advances to non-banking customers	**151,624**	**80,575**

note 18. UNEARNED INTEREST INCOME ON FINANCE LEASE DEALS

LVL 000`s	31/12/98	31/12/97
Short-term unearned income	4,394	2,067
Long-term unearned income	7,585	2,849
Total unearned interest income on finance lease deals	**11,979**	**4,916**

note 19. TREASURY BILLS AND OTHER FIXED INCOME SECURITIES

LVL 000`s	31/12/98	31/12/97
Private financial institution	2,902	-
State Treasury bills	2,967	14,919
Government bonds	13,090	18,720
Municipality bonds	201	1,726
Credit institution bonds	4,828	2,037
Corporate bonds	-	573
Short-term money management account	44,805	48,776
Securities held with a custodian bank	19,951	17,948
Total gross treasury bills and other fixed income securities	**88,744**	**104,699**
Provision for possible diminution in value	(955)	-
Total net treasury bills and other fixed income securities	**87,789**	**104,699**

Total investments in Treasury bills and other fixed income securities are classified by listed and unlisted securities as follows (all amounts in LVL 000's):

	31/12/98			31/12/97		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Treasury bills:						
Latvian Treasury bills	-	2,762	2,762	-	14,404	14,404
Other non-OECD Treasury bills	205	-	205	-	515	515
Total	**205**	**2,762**	**2,967**	**-**	**14,919**	**14,919**
Government bonds:						
Non-OECD (excluding Latvia)	4,964	3,612	8,576	3,472	15,248	18,720
OECD	2,931	1,583	4,514	-	-	-
Municipality bonds:						
Non-OECD	201	-	201	79	1,647	1,726
Bonds of credit institutions:						
OECD	3,406	1,058	4,464	-	2,037	2,037
Non-OECD (excluding Latvia)	7	357	364	-	-	-
Corporate bonds:						
Non-OECD (excluding Latvia)	-	-	-	-	573	573
Bonds of other financial institutions:						
OECD	2,860	42	2,902	-	-	-
Short-term money management account	-	44,805	44,805	-	48,776	48,776
Securities held with a custodian bank	-	19,951	19,951	-	17,948	17,948
Total gross fixed income securities	**14,574**	**74,170**	**88,744**	**3,551**	**101,148**	**104,699**
Provision for possible diminution in value	(564)	(391)	(955)	-	-	-
Total net fixed income securities	**14,010**	**73,779**	**87,789**	**3,551**	**101,148**	**104,699**

Treasury bills and other fixed income securities held by the Bank on its own account are analysed as follows:

	31/12/98			31/12/97		
	Securities held for investment purposes	Securities held for trading purposes	Total in LVL 000's	Securities held for investment purposes	Securities held for trading purposes	Total in LVL 000's
State Treasury bills	2,762	205	2,967	14,919	-	14,919
Government bonds	13,090	-	13,090	15,248	3,472	18,720
Municipality bonds	201	-	201	1,647	79	1,726
Credit institution bonds	4,821	7	4,828	2,037	-	2,037
Corporate bonds	-	-	-	573	-	573
Financial institution bonds	2,902	-	2,902	-	-	-
Short-term money management account	-	44,805	44,805	48,776	-	48,776
Securities held with a custodian bank	-	19,951	19,951	17,948	-	17,948
Total gross fixed income securities	**23,776**	**64,968**	**88,744**	**101,148**	**3,551**	**104,699**
Provision for possible diminution in value			(955)			-
Total net fixed income securities			**87,789**			**104,699**

The value of unamortised discount for long-term investments in fixed income debt securities purchased on the Bank's own account amounted to LVL 1,547,254 at 31 December 1998.

note 20. TREASURY BILLS AND OTHER FIXED INCOME SECURITIES BY MATURITY PROFILE

Maturity profile	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	more than 5 years	Total portfolio in LVL 000's
Government bonds	34	1,134	3,429	4,422	12,859	3,754	25,632
Municipality bonds	-	-	-	-	201	-	201
Credit institution bonds	558	544	567	1,613	4,191	364	7,837
Corporate bonds	-	-	1,093	1,665	74	-	2,832
Financial institution bonds	-	545	-	3,917	2,975	-	7,437
Short-term money management account	44,805	-	-	-	-	-	44,805
Total gross fixed income securities	**45,397**	**2,223**	**5,089**	**11,617**	**20,300**	**4,118**	**88,744**
Provision for possible diminution in value	(31)	-	(153)	-	(716)	(55)	(955)
Total net fixed income securities	**45,366**	**2,223**	**4,936**	**11,617**	**19,584**	**4,063**	**87,789**

note 21. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the division between shares and other non-fixed income securities held by the Bank for investment and trading purposes:

LVL 000`s			31/12/98			31/12/97
	Investment purposes	Trading purposes	Total	Investment purposes	Trading purposes	Total
Equity shares						
in OECD corporate entities	12	-	12	12	-	12
in Latvian credit institutions	4,794	-	4,794	1,483	-	1,483
in other non-OECD credit institutions	-	1	1	-	24	24
in Latvian corporate entities	25	47	72	15	581	596
in other non-OECD corporate entities	24	312	336	23	1,634	1,657
Total equity shares	**4,855**	**360**	**5,215**	**1,533**	**2,239**	**3,772**
Latvian privatisation certificates	-	57	57	-	40	40
Total gross non-fixed income securities	**4,855**	**417**	**5,272**	**1,533**	**2,279**	**3,812**
Provision for possible diminution in value	(1,155)	(24)	(1,179)	-	-	-
Total net non-fixed income securities	**3,700**	**393**	**4,093**	**1,533**	**2,279**	**3,812**

Investments in listed equity shares held for trading purposes have been recorded at their market value.

Equity shares in Latvian credit institutions represents a share holding in Unibank of Latvia, another Latvian bank. The shares are held, and valued, as a strategic investment. A provision has been established against cost for other-than-temporary diminution in value.

The following table shows the division of investments in shares and other non-fixed income securities held by the Bank by listed and unlisted securities:

LVL 000`s			31/12/98			31/12/97
	Listed	Unlisted	Total	Listed	Unlisted	Total
Equity shares						
- in OECD corporate entities	-	12	12	-	12	12
- in Latvian credit institutions	4,794	-	4,794	1,483	-	1,483
- in other non-OECD credit institutions	1	-	1	-	24	24
- in Latvian corporate entities	47	25	72	581	15	596
- in other non-OECD corporate entities	312	24	336	1,634	23	1,657
Total equity shares	**5,154**	**61**	**5,215**	**3,698**	**74**	**3,772**
Latvian privatisation certificates	-	57	57	-	40	40
Total gross non-fixed income securities	**5,154**	**118**	**5,272**	**3,698**	**114**	**3,812**
Provision for possible diminution in value	(1,179)	-	(1,179)	-	-	-
Total net non-fixed income securities	**3,975**	**118**	**4,093**	**3,698**	**114**	**3,812**

note 22. INVESTMENTS IN SUBSIDIARIES

The table below shows investments in subsidiaries' capital, which have been recorded in the Bank's financial statements using the equity method. Due to the nature of activities and the amount invested, Management of the Bank are of the opinion that consolidation is not necessary or appropriate in the current circumstances.

	Country of incorporation	Business profile	Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	Investment value in LVL 000' s
Parex Capital Ukraine	Ukraine	Finance	11	58	58	-
Parex Broker System Ltd.	Latvia	Finance	120	86.67	86.67	104
Open pension fund «Sociālais nodrošinājums» BAS	Latvia	Finance	100	77	77	77
Parex Asset Management Company Limited	Ireland	Finance	85	100	100	8
M.B.M. Investments Ltd.	Ireland	Finance	1	100	100	-
Wasman Trading Ltd.	Ireland	Finance	-	100	100	-
Bardera Holdings Limited	Cyprus	Finance	6	100	100	-
Kay Castle Limited	Cyprus	Finance	6	100	100	-
Regalite Holding Limited	Cyprus	Finance	6	100	100	-
Rockus Enterprises Limited	Cyprus	Finance	3	100	100	-
Total net investments in subsidiaries						**189**

The Bank has used the equity accounting method in establishing the investment value for its investments in subsidiaries at the year end. The movement arising from equity accounting of LVL 7,000 decrease has occurred in the year that has been charged to the income statement as a diminution in long term investments (note 12).

note 23. INVESTMENTS IN AFFILIATED ENTITIES

	Country of incorporation	Business profile	Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	Bank's investment LVL 000' s
Exportbank, Moscow	Russia	Banking	242	33.74	33.74	346
Parekss Dzīvība, A/S under liquidation	Latvia	Life insurance	600	39.84	39.84	221
Bank Service Centre, SIA	Latvia	Banking services	200	24.00	24.00	59
Carl Gustav Dimants, A/S	Latvia	Trading	80	19.60	20.10	16
Loka - 2, SIA	Latvia	Trading	2	48.90	48.90	-
Jurmala Yacht Club, BO SIA	Latvia	Transport	2	8.33	8.33	-
Total net investments in affiliated entities						**642**

The bank has a holding in Exportbank, a Russian bank located in Moscow, previously named «Parex Bank Russia».

The Bank has used the equity accounting method in establishing the investment value for its investments in affiliates at the year end. The movement arising from equity accounting of LVL 272,000 decrease has occurred in the year that has been charged to the income statement as a diminution in long term investments (note 12).

note 24. INTANGIBLE ASSETS AND FIXED ASSETS

Intangible assets

Intangible assets comprise leasehold rights related to a building situated in Riga, Latvia. The leasehold rights are being amortised over the ten-year lease contract on a straight-line basis. At 31 December 1998, the non-amortised balance of the capitalised leasehold rights amounted to LVL 385 thousand (1997: LVL 464 thousand).

Fixed assets

LVL 000`s	31/12/98	31/12/97
Leasehold improvements	311	386
Buildings	4,401	4,359
Transport vehicles	1,133	1,094
Office equipment	3,590	2,298
Total fixed assets excluding prepayments	**9,435**	**8,137**
Prepayments for fixed assets	218	860
Total net book value of fixed assets	**9,653**	**8,997**

The following changes in the Bank's fixed assets took place during the year ended 31 December 1998 (all amounts in LVL 000's):

	Leasehold improvements	Buildings	Transport vehicles	Office equipment	Total fixed assets excluding prepayments
Historical cost					
As at 1 January 1998	752	5,063	1,706	4,185	11,706
Additions during the period	-	842	467	2,574	3,883
Disposals during the period	-	(263)	(126)	(58)	(447)
As at 31 December 1998	**752**	**5,642**	**2,047**	**6,701**	**15,142**
Accumulated depreciation					
As at 1 January 1998	366	704	612	1,887	3,569
Charge for the period	75	545	362	1,256	2,238
Reversal due to disposals	-	(8)	(60)	(32)	(100)
As at 31 December 1998	**441**	**1,241**	**914**	**3,111**	**5,707**
Net book value					
As at 1 January 1998	386	4,359	1,094	2,298	8,137
As at 31 December 1998	**311**	**4,401**	**1,133**	**3,590**	**9,435**
Depreciation percentage (straight-line)	**10%**	**2.5 - 20%**	**20%**	**20 - 33%**	**N/A**

Additions to buildings represent capitalised reconstruction and improvement costs incurred by the Bank in 1998 and are depreciated over the period five to forty years.

Depreciation charge in the income statement

The depreciation charge in the income statement comprises the following:

LVL 000`s	31/12/98	31/12/97
Amortisation of intangible assets	80	80
Depreciation of fixed assets	2,238	1,481
Charge to income statement	**2,318**	**1,560**

note 25. OTHER ASSETS

LVL 000`s	31/12/98	31/12/97
Money in transit	809	504
Corporate income tax receivable	923	302
Jewellery	627	466
Travellers cheques	-	212
Revaluation of spot foreign exchange positions (note 31)	211	-
Other short-term assets	751	364
Total other assets	**3,321**	**1,848**

note 26. BALANCES DUE TO CREDIT INSTITUTIONS

LVL 000`s	31/12/98	31/12/97
Due to credit institutions registered in OECD area	31,967	1,558
Due to credit institutions registered in Latvia	789	1,674
Due to credit institutions registered in other non- OECD countries	6,837	8,925
Total balances due to credit institutions	**39,593**	**12,157**

The following table contains balances due to credit institutions according to maturity profile:

Maturity profile	Due to credit institutions registered in			LVL 000's	LVL 000's
	OECD area	Latvia	non-OECD area	Total	Total
				31/12/98	31/12/97
Total balances repayable on demand	**17,744**	**788**	**5,448**	**23,980**	**5,749**
Loans from credit institutions:					
due within 1 month	-	-	-	-	1,426
due within 1 - 3 months	1,700	-	23	1,723	-
due within 3 - 6 months	340	-	1,366	1,706	1,413
due within 6 - 12 months	11,380	-	-	11,380	-
due within 1 - 5 years	-	1	-	1	3,569
over 5 years	803	-	-	803	-
Total loans from credit institutions	**14,223**	**1**	**1,389**	**15,613**	**6,408**
Total due to credit institutions	**31,967**	**789**	**6,837**	**39,593**	**12,157**

Balances repayable on demand comprise of vostro accounts and overdrafts outstanding on the Bank's correspondent accounts as at 31 December 1998. None of these balances are due to related credit institutions.

note 27. DEPOSITS FROM THE PUBLIC

Maturity profile

LVL 000`s	31/12/98	31/12/97
Demand deposits	183,858	169,728
Term deposits		
due within 1 month	11,084	3,825
due within 1 - 3 months	2,591	2,456
due within 3 - 6 months	6,168	2,847
due within 6 - 12 months	5,365	12,733
due within 1 - 5 years	7,343	8,584
due in more than 5 years	790	355
Total term deposits	**33,341**	**30,800**
Total deposits from the public	**217,199**	**200,528**

The following table shows deposits from the public according to sector profile:

Sector profile

LVL 000`s	31/12/98	31/12/97
Government	12,034	8,786
Municipalities	49	110
Financial institutions	1,154	-
State owned enterprises	7,526	4,541
Public and religious institutions	1,018	588
Privately held companies	155,248	151,422
Private individuals	28,029	25,023
Bank’s employees	12,141	10,058
Total deposits from the public	**217,199**	**200,528**

Geographical profile

LVL 000`s	31/12/98	31/12/97
Latvian residents	66,452	52,172
Non-residents	150,747	148,356
Total deposits from the public	**217,199**	**200,528**

note 28. OTHER LIABILITIES

LVL 000`s	31/12/98	31/12/97
Money in transit	5,756	1,176
Revaluation of forward foreign exchange position (note 31)	1,823	-
Other liabilities	2,052	902
Total other liabilities	**9,631**	**2,078**

Money in transit represents funds received, but not yet transferred to the recipients.

The Bank does not have any issued bonds or other debt securities outstanding as at 31 December 1998.

note 29. PROVISION FOR LIABILITIES AND CHARGES

LVL 000`s	31/12/98	31/12/97
Provision for employee vacation pay	145	146
Specific provision for an outstanding guarantee	-	761
General provision for outstanding guarantees	21	21
Total provision for liabilities and charges	**166**	**928**

The Bank has established a 1% general provision (1997: 1%) for guarantees issued which have not been specifically provided for as at 31 December 1998, to cover inherent risks.

note 30. SHAREHOLDERS' EQUITY

As at 31 December 1998 the Bank's registered and paid share capital was LVL 30,000,000. In accordance with the Bank's statutes, the share capital consists of 9,000,000 ordinary shares with voting rights and 21,000,000 ordinary shares without voting rights. All shares have a par value of LVL 1 each and were issued and fully paid as at 31 December 1998.

At 31 December 1998, the Bank did not own any of its own shares.

As at 30 January 1998, the shareholders of the Bank approved the transfer of retained earnings relating to the net profit for the year ended 31 December 1996 as well as legal and other reserves to share capital. As a result, share capital increased to LVL 23,464,518. At the same time, the Bank performed a 500 for 1 share split, thereby reducing the nominal value for each share to LVL 1 and increasing the total number of shares to 23,464,518.

As at 17 June 1998, the shareholders of the Bank approved the transfer to the share capital of retained earnings relating to the net profit for the year ended 31 December 1997. As a result, share capital increased to LVL 30,000,000 and the total number of shares increased to 30,000,000.

The Bank had 5 shareholders as at the end of the period. The Bank's principal shareholders at 31 December 1998 were as follows:

			31/12/98			31/12/97
	Paid-in share capital	% of total paid-in capital	% of total voting rights	Paid-in share capital	% of total paid-in capital	% of total voting rights
Europe Holding Ltd., Isle of Man, UK	15,280	50.93%	-	5,618	50.93%	24.38%
Valery Kargin	7,210	24.03%	50.00%	2,651	24.03%	37.30%
Viktor Krasovitsky	7,210	24.03%	50.00%	2,651	24.03%	37.30%
Other shareholders	300	1.01%	-	109	1.01%	1.02%
Total as at 31 December 1998	**30,000**	**100.00%**	**100.00%**	**11,029**	**100.00%**	**100.00%**

note 31. MEMORANDUM ITEMS

Memorandum items comprise the following contingent liabilities, financial commitments and net foreign exchange transactions outstanding at 31 December 1998:

LVL 000`s	31/12/98	31/12/97
Contingent liabilities		
Outstanding guarantees	2,518	2,895
Less provision for guarantees (see Notes 11 and 29)	(21)	(782)
Total contingent liabilities	**2,497**	**2,113**
Financial commitments		
Loans granted not fully drawn down	1,579	237
Undrawn credit lines	21,860	21,187
Total financial commitments	**23,439**	**21,424**

Guarantees issued on behalf of related parties are collateralised by security deposits.

At 31 December 1998, the Bank had no outstanding commitments for capital expenditure or re-purchase of assets previously sold. There were also no assets pledged by the Bank at the end of the period.

LVL 000`s	31/12/98	31/12/97
Foreign exchange transactions		
Spot exchange receivable	5,035	3,999
Spot exchange payable	(4,947)	(3,994)
Revaluation of spot foreign exchange position (note 25)	211	-
Forward foreign exchange receivable	31,779	42,355
Forward foreign exchange payable	(32,500)	(42,496)
Revaluation of forward foreign exchange position (note 28)	(1,823)	-
Foreign exchange transactions, net	**(2,245)**	**(136)**

note 32. FUNDS UNDER TRUST MANAGEMENT

Under IAS, funds managed by a trustee on behalf of individuals, trusts and other institutions are not regarded as assets of the trustee and, therefore, are not included in its balance sheet.

The regulations of the Bank of Latvia require funds under trust management to be included in the balance sheet of the Bank as an addition to total assets and total liabilities, consistent with current Latvian legislation.

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

Investment profile

LVL 000`s	31/12/98	31/12/97
Treasury bills and other fixed income securities		
State Treasury bills	1,443	12,522
Government bonds	9,755	8,885
Foreign municipality bonds	725	4,425
Corporate bonds	-	-
Credit institution bonds	516	-
Foreign financial institution bonds	2,380	-
Securities under trust management agreements	1,246	-
Securities held with custodian banks	1,913	3,085
Total investments in fixed income securities	**17,978**	**28,917**
Other investments		
Loans to non-banking entities	7,295	13,584
Loans to banks	899	-
Foreign equity shares	475	4,712
Foreign credit institution shares	119	-
Latvian equity shares	6	-
Latvian credit institution shares	5	-
Total other investments	**8,799**	**18,296**
Total assets under trust management agreements	**26,777**	**47,213**

As at 31 December 1998, the Bank had entered into several foreign exchange open contracts on behalf of its customers. These contracts possess no currency exchange risk to the Bank as customers have placed security deposits with the Bank in respective currency and the Bank is authorised to close the contracts as soon as a customer's loss exceeds 60% of the security deposit.

Provision for other - than - temporary diminutions in value have not been established for assets under trust management, and accordingly the valuation of such assets may not be consistent with the valuation of similar securities in the Bank's own balance sheet.

note 33. LITIGATION AND CLAIMS

A/s «Parex Bank» was involved in the following litigation cases pending at the period end.

During 1997 and 1998 A/S «Parex Bank» entered into margin trade (brokerage) contracts with another Latvian credit institution. A security deposit amounting to USD 1,760,914 was placed by the credit institution. As a result of market price movements a loss of USD 2,720,735 arose. A/S «Parex Bank» offset the loss against the margin deposit and issued a further margin call to the credit institution. The credit institution refused to comply with the margin call and subsequently A/S «Parex Bank» filed a lawsuit at arbitration court. The arbitration court was won by A/S «Parex Bank». Subsequently the credit institution asserted a lawsuit claiming the marginal trade (brokerage) contracts ineffective and claimed the security deposit in amount of USD 1,760,914. The Bank's Management are confident that the contracts with the credit institution are fully legal and the support for the claim on incurred losses is unfounded. Accordingly, the Management believe no provision is required in the financial statements at 31 December 1998. The amount receivable from the credit institution has not been accrued for, for reason of prudence.

The Bank was involved in a number of further legal proceedings in the ordinary course of business to recover collateral or outstanding credit balances and related interest and expenses from defaulted credit customers.

note 34. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents at 31 December 1998 and 31 December 1997:

LVL 000`s	**31/12/98**	**31/12/97**
Cash and demand deposits with the Bank of Latvia	22,193	18,103
Demand deposits with other credit institutions	16,087	19,479
Demand deposits taken from other credit institutions	(23,980)	(5,749)
Total cash and cash equivalents	**14,300**	**31,833**

note 35. CAPITAL ADEQUACY

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 off balance sheet exposures of the Bank.

The Bank of Latvia, the bank regulator, 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 of Latvia requirements are principally consistent with the internationally recognised Basle Committee guidelines for the calculation of equity to be utilised in the capital adequacy ratio.

The Bank's international risk based capital adequacy ratio as at 31 December 1998 was 16.26% (1997: 22.3%), which is above the minimum ratio recommended by the 1988 Basle Committee guidelines of 8%. At the same time, in accordance with the Bank of Latvia's requirements, the Bank's risk based capital adequacy ratio was 16.19% (1997: 23.0%). Based on these requirements set by the Bank of Latvia, the Bank's equity to be utilised in the capital adequacy ratio as at 31 December 1998 has been calculated as follows:

Description	Amounts in LVL 000's	Total per tier
Tier 1		
paid-in share capital	30,000	
share premium	-	
legal and other reserves	-	
audited retained earnings	2,542	
Less		
total amount of preference shares	-	
accumulated deficit	-	
own shares held	-	
intangible assets (as defined by the Bank of Latvia)	(385)	
loss for the period	-	
Total Tier 1		**32,157**
Tier 2		
subordinated capital (restricted to 50% of Tier 1)	-	
audited profit for the current period (not subject to dividend distribution)	1,210	
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)	-	
Total Tier 2		**1,210**
Less investments in other credit institutions' capital		(3,986)
Equity to be utilised in the capital adequacy ratio per the Bank of Latvia		**29,381**
Additional Tier 1		
intangible assets		385
Additional Tier 2		
general provision for possible credit losses (restricted to 1.25% of risk weighted assets)		2,286
Equity to be utilised in the capital adequacy ratio per the Basle Committee guidelines		**32,052**

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 slightly differ from the recommendations under the Basle Committee guidelines. The following table shows asset weightings used in calculation of the Bank's capital adequacy ratio according to the Bank of Latvia's requirements.

Under the Bank of Latvia's guidelines	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets LVL 000's
Assets				
Cash and deposits with the Bank of Latvia		22,193	0%	-
Fixed income securities of Latvian Government		2,762	0%	-
Loans and advances secured by Latvian government securities or guarantees or security deposits		34,393	0%	-
OECD area government bonds		4,514	0%	-
Balances due from credit institutions within the OECD area		8,263	20%	1,653
Demand deposits with credit institutions within Latvia		2,857	20%	571
OECD credit institution bonds		4,464	20%	893
Securities held with a custodian bank in OECD area		64,756	20%	12,951
Other balances due from credit institutions within Latvia		-	50%	-
Prepayments and accrued interest income		3,277	50%	1,639
Loans to local municipalities in Latvia		31	50%	16
Loans and advances against collateral		32,691	80%	26,153
Other fixed income securities of non-OECD area Governments, except Latvia		8,488	100%	8,488
Bonds of non-OECD area local municipalities, except Latvia		16	100%	16
Balances due from credit institutions within the non-OECD area, except Latvia		6,880	100%	6,880
Other loans and advances to non-banking customers		84,509	100%	84,509
Other securities with fixed income		2,789	100%	2,789
Shares and other non-fixed income securities		453	100%	453
Investments in subsidiaries and affiliated entities		485	100%	485
Fixed assets		9,653	100%	9,653
Other assets		3,321	100%	3,321
Intangible assets		385	-	-
Investment in credit institutions		3,986	-	-
Total assets		**301,166**		**160,470**
Memorandum items				
Funds under trust management		26,777	-	
Guarantees issued				
zero risk weighted		464	0%	-
50% risk weighted		28	50%	14
80% risk weighted		26	80%	21
100% risk weighted		1,979	100%	1,979
Credit commitments		23,439	80%	18,751
Financial contracts				
0% risk weighted	2%	14,516	0%	-
20% risk weighted	2%	10,181	20%	41
50% risk weighted	2%	-	50%	-
100% risk weighted	2%	12,750	100%	255
Total assets and memorandum items for capital adequacy				**181,531**
Equity to be utilised in the capital adequacy ratio				**29,381**
Capital Adequacy Ratio				**16.19%**

Based on the guidelines of the Basle Committee, the Bank's capital adequacy has been calculated as follows:

Under the Basle Agreement	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets LVL 000's
Assets				
Cash and deposits with the Bank of Latvia		22,193	0%	-
Loans and advances secured by Latvian government securities or guarantees or security deposits		34,393	0%	-
Fixed income securities of Latvian Government		2,762	0%	-
OECD area government bonds		4,514	0%	-
Fixed income securities of non-OECD area Governments in local currency, except Latvia		-	10%	-
OECD credit institution bonds		4,464	20%	893
Securities held with a custodian bank in OECD area		64,756	20%	12,951
Balances due from credit institutions within the OECD area		8,263	20%	1,653
Demand deposits with credit institutions within Latvia		2,857	100%	2,857
Other balances due from credit institutions within Latvia		-	100%	-
Demand deposits with credit institutions within the non-OECD area, except Latvia		5,515	100%	5,515
Term deposits with credit institutions within the non-OECD area, except Latvia		1,365	100%	1,365
Other loans and advances to non-banking customers		117,231	100%	117,231
Prepayments and accrued interest income		3,277	100%	3,277
Other fixed income securities of non-OECD area Governments, except Latvia		8,488	100%	8,488
Bonds of non-OECD area local municipalities, except Latvia		16	100%	16
Other securities with fixed income		2,789	100%	2,789
Shares and other non-fixed income securities		453	100%	453
Investments in subsidiaries and affiliated entities		485	100%	485
Fixed assets		9,653	100%	9,653
Other assets		3,321	100%	3,321
Intangible assets		385	100%	385
Investment in credit institutions		3,986	-	-
Total assets		**301,166**		**171,332**
Memorandum items				
Funds under trust management		26,777	-	
Guarantees secured by deposits		464	0%	-
Other guarantees		2,033	100%	2,033
Credit commitments		23,439	100%	23,439
Financial contracts				
zero rated (14 days or less to maturity)	0%	14,516	0%	-
financial contracts within OECD area (less than one year maturity)	2%	10,181	20%	41
other (less than one year maturity)	2%	12,750	100%	255
Total assets and memorandum items for capital adequacy				**197,100**
Equity to be utilised in the capital adequacy ratio				**32,052**
Capital Adequacy Ratio				**16.26%**

note 37. REPRICING MATURITY OF ASSETS AND LIABILITIES

Interest rate risk is the sensitivity of the financial position of a bank to the change in market interest rates.
In the normal course of business, a bank encounters interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest sensitive assets and liabilities. The Bank seeks to control this risk through the activities of the Bank's Treasury.

	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total in LVL 000`s
Assets								
Cash and deposits with the Bank of Latvia	-	-	-	-	-	-	22,193	22,193
Balances due from credit institutions	15,927	1,712	314	47	-	-	-	18,000
Loans and advances to customers	23,452	21,517	22,734	22,285	41,163	20,473	-	151,624
Treasury bills and other fixed income securities	45,366	2,223	4,936	11,259	19,942	4,063	-	87,789
Shares and other non-fixed income securities	-	-	-	-	-	-	4,093	4,093
Investments in affiliated entities	-	-	-	-	-	-	642	642
Investments in subsidiaries	-	-	-	-	-	-	189	189
Intangible assets	-	-	-	-	-	-	385	385
Fixed assets	-	-	-	-	-	-	9,653	9,653
Other assets	-	-	-	-	-	-	3,321	3,321
Prepayments and accrued interest income	-	-	-	-	-	-	3,277	3,277
Total assets	**84,745**	**25,452**	**27,984**	**33,591**	**61,105**	**24,536**	**43,754**	**301,166**
Liabilities								
Balances due to credit institutions	3,621	1,723	1,706	11,380	1	803	20,359	39,593
Deposits from the public	71,084	2,591	6,168	5,365	7,343	458	124,190	217,199
Other liabilities	-	-	-	-	-	-	9,631	9,631
Accrued interest expense	-	-	-	-	-	-	825	825
Provision for liabilities and charges	-	-	-	-	-	-	166	166
Total liabilities	**74,705**	**4,314**	**7,874**	**16,745**	**7,344**	**1,261**	**155,171**	**267,414**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**33,752**	**33,752**
Total liabilities and shareholders' equity	**74,705**	**4,314**	**7,874**	**16,745**	**7,344**	**1,261**	**188,923**	**301,166**

note 38. ASSETS AND LIABILITIES BY CURRENCY PROFILE

The following table provides an analysis of the Bank's assets and liabilities and shareholders` equity as well as memorandum items outstanding as at 31 December 1998 by currency profile:

	LVL	USD	RUR	Other	Total in LVL 000`s
Assets					
Cash and deposits with the Bank of Latvia	16,051	4,912	10	1,220	22,193
Balances due from credit institutions	2,506	8,432	1,142	5,920	18,000
Loans and advances to non-banking customers	22,738	112,808	1,075	15,003	151,624
Treasury bills and other fixed income securities	2,979	84,620	190	-	87,789
Shares and other non-fixed income securities	3,760	333	-	-	4,093
Investments in subsidiaries	189	-	-	-	189
Investments in affiliated entities	642	-	-	-	642
Intangible assets	385	-	-	-	385
Fixed assets	9,653	-	-	-	9,653
Other assets	2,318	885	108	10	3,321
Prepayments and accrued interest income	777	2,372	10	118	3,277
Assets under trust management	6,356	19,053	551	817	26,777
Total assets	**68,354**	**233,415**	**3,086**	**23,088**	**327,943**
Liabilities					
Balances due to credit institutions	61	36,446	28	3,058	39,593
Deposits from the public	33,172	172,385	1,891	9,751	217,199
Other liabilities	3,438	3,831	490	1,872	9,631
Accrued interest expense	103	677	-	45	825
Provision for liabilities and charges	166	-	-	-	166
Liabilities under trust management	6,356	19,053	551	817	26,777
Capital and reserves	33,752	-	-	-	33,752
Total liabilities	**77,048**	**232,392**	**2,960**	**15,543**	**327,943**
Net long/(short) position for balance sheet items	*(11,597)*	*3,787*	*237*	*7,573*	-
Off-balance sheet claims arising from foreign exchange					
Spot exchange receivable	1,388	3,110	80	457	5,035
Forward foreign exchange receivable	12,421	14,514	1,328	3,516	31,779
Total	**13,809**	**17,624**	**1,408**	**3,973**	**36,814**
Off-balance sheet liabilities arising from foreign exchange					
Spot exchange payable	500	1,850	-	2,597	4,947
Forward foreign exchange payable	2,896	19,739	988	8,877	32,500
Total	**3,396**	**21,589**	**988**	**11,474**	**37,447**
Net long/(short) positions on foreign exchange	*10,413*	*(3,965)*	*420*	*(7,501)*	*(633)*
Net long/(short) position	*(1,184)*	*(178)*	*657*	*72*	*(633)*
Funds under trust management	6,356	19,053	551	817	26,777
Contingent liabilities	96	1,963	37	401	2,497
Financial commitments	8,388	14,386	-	665	23,439
Exchange rates applied as at 31 December 1998	**1**	**0.569**	**0.0267**		

(1 LVL to 1 foreign currency unit)

A significant portion of loans and advances to customers are denominated in USD. Although these loans are generally funded in the Bank by USD denominated deposits, an appreciation of the USD against the local currency may adversely affect the borrowers' repayment ability and, therefore, increase the likelihood of future credit losses.

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity (see Note 35 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.
The Bank was in compliance with the above requirements as at 31 December 1998.

note 39. RELATED PARTIES

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 associated companies of the Bank.

LVL 000`s	**31/12/98**	**31/12/97**
Total credit exposure to related parties		
Loans and advances to related parties	793	1,998
Investments in associated entities capital	1,109	922
Guarantees issued to related parties	297	285
	2,199	**3,205**
Total deposits from related parties		
Deposits from related parties	13,792	11,144

	Amount in LVL 000's	Terms
Total credit exposure to related parties		
Loans and advances to related parties	793	0% - 13%
Investments in associated entities capital	1,109	N/A
Guarantees issued to related parties	297	N/A
	2,199	
Total deposits from related parties		
Deposits from related parties	13,792	0% - 24%

No specific provision has been established by the Bank for loans and guarantees issued to related parties at 31 December 1998.

Guarantees issued to related parties are collateralised by security deposits.

note 40. YEAR 2000 COMPLIANCE

The Bank is dependent for its banking operations upon a number of computer-based information systems. Management of the Bank have appointed staff to deal with the assessment and development of the Bank's information systems to ensure year 2000 compliance and a project plan has been prepared with prioritisations identified. As part of the project plan, the Bank has undertaken an inventorisation of its principal information systems in order to assess the extent of the exposure of the systems to processing problems that may arise relating to the processing of dates relating to the transition to the year 2000. The Bank has identified a number of systems, including systems deemed critical by management to the operation of the Bank, for which transition to the year 2000 may cause processing problems. The Bank is currently in the phase of testing the key information systems that have been implicated, and upgrades will subsequently be undertaken.
Management of the Bank is confident that, through appropriate prioritisation, the Bank will be satisfactorily year 2000 compliant in its critical systems by 31 December 1999 and that appropriate contingency plans will be in place to deal with any year 2000 problems that could affect the operation of the Bank.