AS DnB NORD Banka
GADA PĀRSKATS 2006
ANNUAL REPORT 2006

ACROBAT READER

DnB NORD Banka

ENG

LV

AS DnB NORD Banka
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We are pleased to announce good annual results and the further growth of DnB NORD Banka in 2006. The strategy of the bank accepted by the Supervisory Council and executed by the Management Board has been successful and resulted in further stable development of the bank.

2006 — Year of stable further development

As in recent years DnB NORD Banka has been one of the fastest growing banks in Latvia in 2006. The growth rate of assets of DnB NORD Banka was 77% comparing to the beginning of the year. The amount of assets amounted to LVL 1 310.9 million, therefore exceeding one billion lats for the first time in the history of the bank.

The customers of the bank have demonstrated loyalty and trust, and it is reflected in the growth of the deposit portfolio of the bank. The amount of deposits attracted in 2006 increased by 71% comparing to the beginning of the year and amounted to LVL 317.3 million.

The loan portfolio of DnB NORD Banka almost doubled in 2006, amounting to LVL 1 122.5 million. Loans to legal entities amounted to LVL 515.2 million, and loans to private persons — to LVL 612.1 million, constituting 54% of the total loan portfolio of DnB NORD Banka.

The bank continued offering beneficial financial products both to corporate and retail market. The number of corporate customers of the bank increased by 15% in the reporting period. In 2006 the bank started expanding its operations in small and middle sized enterprise (SME) sector as well. Increasingly big number of inhabitants of Latvia chose the financial products and services offered by DnB NORD Banka, and in 2006 the number of customers — private individuals — increased by 18%.

In 2006 the bank continued to develop its branch network opening new branches as well as modernizing the existing ones all over the country, therefore by the end of the year the customers of the bank are welcome in 32 branches and 3 sub-branches.

DnB NORD Banka earned a consolidated net profit of LVL 9.84 million in 2006 that compared favourably to the net profit of LVL 6.4 million earned in 2005. It has been a successful year for the bank, and it is proposed to capitalise the profit.

The subsidiaries of DnB NORD Banka — leasing company DnB NORD Līzings and investment management company DnB NORD Fondi — continued their successful development. DnB NORD Līzings stabilised its position as the third biggest leasing company in Latvia with market share of 11%, and its leasing and factoring portfolio has amounted to LVL 108.3 million. In 2006 a new subsidiary — leasing company DnB NORD Liising — was founded in Estonia. The assets in management of DnB NORD Fondi have increased by 208% in 2006, amounting to LVL 3.7 million. The number of customers of the investment management company more than doubled amounting to 31.5 thousand.

As a result of a prudent risk policy the risk position of the bank remained stable and compares favorably with the average in the banking sector of Latvia. The bank increased the provisions for homogenous groups of loans in order to maintain further stable position.

DnB NORD Banka — a universal bank for every inhabitant and company in Latvia

In 2007 the bank will continue working as a universal bank targeting at three main directions — bank for private individuals, bank for large, middle-sized and small companies (SME) as well as a bank offering main investment banking services.

Special attention will be paid to increasing the number of customers — both private persons and legal entities — using DnB NORD Banka as a bank for their everyday transactions. New and more beneficial services to private individuals, corporate customers and SMEs will be elaborated, and 4-5 new branches will be opened in 2007.

We are pleased to say that DnB NORD Banka was highly successful in continuing its way toward the goal — to become one of the leading universal banks in Latvia providing high quality financial products and services to customers within a wide branch network — in 2006.

Sven Herlyn
Chairman of the
Supervisory Council

Riga, 12 March 2007

Andris Ozolins
Chairman of the
Management Board

The Supervisory Council

Name	Institution	Position	Date of appointment
Sven Herlyn	Bank DnB NORD A/S	Chairman of the Supervisory Council	14 September 2005*
Dr. Juergen Allerkamp	Norddeutsche Landesbank	Vice Chairman of the Supervisory Council	28 March 2006 **
Juris Binde	"Latvijas Mobilais Telefons" SIA	Member of the Supervisory Council	21 March 2002
Torstein Hagen	Bank DnB NORD A/S	Member of the Supervisory Council	23 March 2006
Baiba Anda Rubess	SIA Latvija Statoil	Member of the Supervisory Council	21 March 2002
Peter-Juergen Schmidt	WEDIT Deloitte & Touche	Member of the Supervisory Council	20 July 2000
Aasmund Skaar	DnB NOR Bank ASA	Member of the Supervisory Council	23 March 2006

* From 20 July 2000 till 4 October 2004 Sven Herlyn was a member of the Supervisory Council; from 4 October 2004 till 14 September 2005 Sven Herlyn was the Vice Chairman of the Supervisory Council
** From 20 July 2000 till 28 March 2006 Dr. Juergen Allerkamp was a member of the Supervisory Council

The following members of the Supervisory Council have resigned during the reporting year:

Name	Institution	Position	Date of resignation
Dr. Gunter Dunkel	Norddeutsche Landesbank	Vice Chairman of the Supervisory Council	23 March 2006
Dr. Gert Vogt	Credit Suisse First Boston	Member of the Supervisory Council	23 March 2006

The Management Board

Name	Position	Date of appointment
Andris Ozolins	Chairman of the Management Board	1 January 2004*
Gundars Andzans	Member of the Management Board	16 May 2005
Rudolf Karges	Member of the Management Board	20 July 2000
Ivars Kapitovics	Member of the Management Board	10 August 2006

* From 29 March 2001 till 1 January 2004 Andris Ozolins was the Vice Chairman of the Management Board; from 10 September 1999 till 29 March 2001 Andris Ozolins was a Member of the Management Board.

The following members of the Management Board have resigned during the reporting year:

Name	Position	Date of resignation
Aivars Flemings	Member of the Management Board	30 June 2006
Michael Kiesewetter	Member of the Management Board	31 October 2006

The Management Board of AS DnB NORD Banka are responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 14 to 126 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2006 and the results of their operations and cash flows for the year ended 31 December 2006.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in European Union (EU) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management Board in the preparation of the financial statements.

The Management Board of AS DnB NORD Banka are responsible for the maintenance of proper accounting records, the safeguarding of the Group's and the Bank's assets and the prevention and detection of fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia, Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

Andris Ozolins
Chairman of the Management Board

Gundars Andzans
Member of the Management Board

Rudolf Karges
Member of the Management Board

Ivars Kapitovics
Member of the Management Board

Riga, 12 March 2007

Banka Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS DnB NORD Banka and its subsidiaries (the Group) and the financial statements of AS DnB NORD Banka (the Bank) on pages 14 to 126 which comprise the balance sheets as of 31 December 2006 and the income statements, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

We have read the Management Report set out on pages 2 to 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2006.

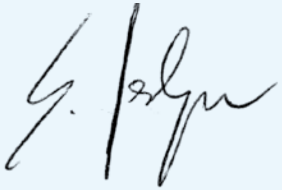
PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Certified auditor
Certificate No. 116
Member of the Board
12 March 2007

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Interest income	5	55,470	52,737	28,345	27,791
Interest expense	6	(28,575)	(26,943)	(11,673)	(11,673)
Net interest income		**26,895**	**25,794**	**16,672**	**16,118**
Fee and commission income	7	7,222	7,385	5,432	5,192
Fee and commission expenses	8	(3,732)	(3,548)	(2,707)	(2,588)
Net fee and commission income		**3,490**	**3,837**	**2,725**	**2,604**
Net trading income	9	2,400	2,352	1,565	1,639
Other operating income	10	4,740	1,269	2,566	1,116
Dividend income		–	390	–	–
Administrative expenses	11	(17,515)	(16,489)	(10,949)	(10,360)
Depreciation	21, 22	(3,797)	(1,108)	(1,939)	(838)
Other operating expense		(313)	(268)	(249)	(169)

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Allowances for impairment loss	26	(5,556)	(5,556)	(4,244)	(4,195)
Release of previously established allowances	26	1,248	1,239	1,523	1,523
Profit before income tax		**11,592**	**11,460**	**7,670**	**7,438**
Corporate income tax	12	(1,773)	(1,590)	(1,271)	(1,271)
Net profit for the year		**9,819**	**9,870**	**6,399**	**6,167**
Attributable to:					
Equity holders of the Bank		9,842		6,424	
Minority interest		(23)		(25)	
Earnings per share for profit attributable to the equity holders of the Bank during the year (expressed in LVL per share)					
Basic	13	0.207	0.207	0.173	0.167

The financial statements on pages 14 to 126 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:



Sven Herlyn
Chairman of the
Supervisory Council

Andris Ozolins
Chairman of the
Management Board

Rudolf Karges
Member of the
Management Board

Riga, 12 March 2007

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

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Assets					
Cash and balances with the central banks	14	81,001	81,001	27,340	27,340
Due from other credit institutions (demand)	15	40,100	40,100	6,441	6,441
Loans and advances to customers	16	1,219,561	1,122,541	623,842	629,347
Financial assets at fair value through profit or loss	17	44,249	44,249	14,972	14,972
Investment securities — held-to-maturity	17	–	–	16,956	16,956
Equity investments	18	10	10	10	10
Investments in subsidiary undertakings	19	–	638	–	463
Derivative financial instruments	20	323	323	62	62
Due from other credit institutions (term)	15	11,139	11,139	35,698	35,471
Intangible fixed assets	21	484	400	279	204
Property and equipment	22	26,326	5,823	13,491	4,265
Deferred expenses and accrued income	23	1,752	1,695	2,404	2,373
Other assets	25	5,033	3,007	1,799	1,142
Total assets		**1,429,978**	**1,310,926**	**743,294**	**739,046**

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

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Liabilities					
Due to other credit institutions (demand)	27	16,525	16,525	18,620	18,620
Due to customers	28	316,742	317,336	186,012	186,048
Debt securities in issue	30	21,413	21,413	22,543	22,543
Derivative financial instruments	20	185	185	–	–
Due to other credit institutions (term)	27	949,413	834,554	435,001	435,001
Corporate income tax liability		170	170	1,271	1,271
Deferred tax liabilities	24	209	26	–	–
Deferred income and accrued expenses	29	3,304	2,985	4,215	4,052
Other liabilities	32	4,815	855	4,757	954
Subordinated loan	31	35,629	35,629	19,179	19,179
Total liabilities		**1,348,405**	**1,229,678**	**691,598**	**687,668**

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Shareholders' equity					
Share capital	33	56,961	56,961	36,961	36,961
Share premium		48,994	48,994	48,994	48,994
Other reserves		214	214	214	214
Revaluation reserve		133	133	133	133
Retained loss		(34,609)	(34,924)	(41,091)	(41,091)
Current year's profit		9,842	9,870	6,424	6,167
Minority interests		38	–	61	–
Total shareholders' equity		**81,573**	**81,248**	**51,696**	**51,378**
Total liabilities and shareholders` equity		**1,429,978**	**1,310,926**	**743,294**	**739,046**

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Memorandum items					
Contingent liabilities					
guarantees	35	19,645	134,455	14,645	14,645
Commitments					
credit commitments		128,819	128,819	103,245	103,245
letters of credit		3,743	3,743	208	208

The financial statements on pages 14 to 126 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Sven Herlyn
Chairman of the Supervisory Council

Andris Ozolins
Chairman of the Management Board

Rudolf Karges
Member of the Management Board

Riga, 12 March 2007

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

	Attributable to equity holders							
	Share capital LVL'000	Share premium LVL'000	Other reserves LVL'000	Revaluation reserve LVL'000	Retained loss LVL'000	Current year's profit LVL'000	Minority interest LVL'000	Total LVL'000
31 December 2004	**36,961**	**48,994**	**214**	**2,086**	**(45,204)**	**3,372**	**–**	**46,423**
Decrease of revaluation reserve (see note 22)	–	–	–	(1,953)	1,953	–	–	**–**
Minority share of IPAS DnB NORD Fondi on the date of acquisition*	–	–	–	–	–	–	86	**86**
Dividends paid	–	–	–	–	–	(1,294)	–	**(1,294)**
Transfer to retained loss	–	–	–	–	2,160	(2,078)	–	**82**
Profit for the year	–	–	–	–	–	6,424	(25)	**6,399**
31 December 2005	**36,961**	**48,994**	**214**	**133**	**(41,091)**	**6,424**	**61**	**51,696**
Increase of share capital	20,000	–	–	–	–	–	–	**20,000**
Transfer to retained loss	–	–	–	–	6,482	(6,424)	–	**58**
Profit for the year	–	–	–	–	–	9,842	(23)	**9,819**
31 December 2006	**56,961**	**48,994**	**214**	**133**	**(34,609)**	**9,842**	**38**	**81,573**

* IPAS DnB NORD Fondi was acquired on 1 January 2005.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital LVL'000	Share premium LVL'000	Other reserves LVL'000	Revaluation reserve LVL'000	Retained loss LVL'000	Current year's profit LVL'000	Total LVL'000
31 December 2004	**36,961**	**48,994**	**214**	**2,086**	**(45,204)**	**3,454**	**46,505**
Decrease of revaluation reserve (see note 22)	–	–	–	(1,953)	1,953	–	**–**
Dividends paid	–	–	–	–	–	(1,294)	**(1,294)**
Transfer to retained loss	–	–	–	–	2,160	(2,160)	**–**
Profit for the year	–	–	–	–	–	6,167	**6,167**
31 December 2005	**36,961**	**48,994**	**214**	**133**	**(41,091)**	**6,167**	**51,378**
Increase of share capital	20,000	–	–	–	–	–	**20,000**
Transfer to retained loss	–	–	–	–	6,167	(6,167)	**–**
Profit for the year	–	–	–	–	–	9,870	**9,870**
31 December 2006	**56,961**	**48,994**	**214**	**133**	**(34,924)**	**9,870**	**81,248**

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Cash flows from operating activities					
Profit before income tax and dividends		11,592	11,070	7,670	7,438
Depreciation and amortisation		3,794	1,108	1,939	838
Profit / (loss) from revaluation of securities		343	343	(92)	(92)
Provisions for impairment of loans and other assets, net		4,078	4,078	2,721	2,672
Profit from sale of fixed assets		(693)	(664)	(973)	(973)
Corporate income tax paid		(2,665)	(2,665)	–	–
Cash flows from operating activities before changes in assets and liabilities		**16,449**	**13,270**	**11,265**	**9,883**
(Increase)/decrease in other assets and accrued income		(2,582)	(1,187)	172	456
Increase/(decrease) in other liabilities and accrued expense		(794)	(1,165)	3,558	68
(Increase) in financial assets at fair value through profit or loss		(13,870)	(13,870)	(7,648)	(7,648)
Decrease in due from credit institutions		857	680	11,686	11,863
(Increase) in loans		(599,797)	(497,272)	(322,113)	(325,186)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Increase in due to credit institutions		514,411	399,552	285,188	285,188
Increase in deposits		130,730	131,288	50,116	50,152
Net cash and cash equivalents used in operating activities		**45,404**	**31,296**	**32,224**	**24,776**
Cash flows from investing activities					
Acquisition of fixed assets		(19,302)	(2,954)	(10,284)	(1,845)
Proceeds from sale of fixed assets and intangible assets		3,161	756	7,933	7,020
Increase in securities held to maturity		–	–	(2,845)	(2,845)
Purchase of shares of a subsidiary		–	(175)	(135)	(263)
Cash and cash equivalents used in investment activities		**(16,141)**	**(2,373)**	**(5,331)**	**2,067**

	Notes	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Cash flows from financing activities					
Increase of share capital		20,000	20,000	–	–
Subordinated loan		16,450	16,450	9,337	9,337
Dividends paid		–	–	(1,294)	(1,294)
Dividends received		–	390	–	–
Cash and cash equivalents from financing activities		**36,450**	**36,840**	**8,043**	**8,043**
Net increase in cash and cash equivalents		**65,713**	**65,763**	**34,936**	**34,886**
Cash and cash equivalents at the beginning of the year	34	49,528	49,478	14,592	14,592
Cash and cash equivalents at the end of the year	34	**115,241**	**115,241**	**49,528**	**49,478**

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

1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS DnB NORD Banka was established as Riga Commercial Bank on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The parent of the Bank is Bank DnB NORD A/S (Denmark) and the ultimate parent of the Bank is DnB NOR ASA (Norway).

The Bank offers a wide range of financial services to enterprises and individuals.

These financial statements were authorised for issue by the Supervisory Council and the Management Board on 12 March 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Reporting Currency

The accompanying financial statements are reported in thousands of lats (LVL`000), unless otherwise stated.

b) Basis of Presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss, derivative contracts and the Bank's buildings.

The preparation of financial statements in conformity with IFRS as adopted in EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2006 are consistent with those used in the financial statements for the year ended 31 December 2005, except certain income from lending fees, which was previously shown under fee and commission income, has been included under interest income in order to be more consistent with the policy for commissions received or incurred in respect of financial assets or funding. The effect of the change is to increase interest income and reduce fee and commission income by LVL 4.5 million (2005: LVL 3.0 million).

c) Consolidation

Subsidiary undertakings in which the Bank, directly or indirectly, has the power to exercise control over financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

d) Income and Expense Recognition

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect of assets or liabilities are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other commissions and fees are credited and/ or charged to the income statement as earned/ incurred.

e) Foreign Currency Translation

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

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

Reporting date	USD	EUR
As at 31 December 2006	0.536	0.702804
As at 31 December 2005	0.593	0.702804

f) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated using the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

g) Cash and Cash Equivalents

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the Central Banks, due from other credit institutions with original maturity up to 3 months, less balances on demand due to other credit institutions.

h) Loans and receivables and provisions for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in

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an active market. All loans and advances are recognised in the balance sheet when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk provision for loan impairment is established if there is objective evidence that the Group or the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

The Group and the Bank first assess whether objective evidence of impairment exists individually for significant loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group and the Bank determines that no objective evidence of impairment exists for an individually assessed loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.
The Group and the Bank review their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group and the Bank make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience

for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.
When a loan is uncollectible, it is written off against the related provision for impairments; subsequent recoveries are credited to the income statement.

Provisions for loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the Bank of Latvia. Foreign exchange rate differences arising from such revaluation are recorded in the income statement as additional provisions or income from the recovery of existing provisions (if any). The corresponding result of revaluing the respective asset covered by the provisions is recorded as profit/ loss to foreign currency transactions.

i) Leases — when the Group or the Bank is a lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets under operating leases are recognised as fixed assets at historical cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life of fixed assets that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term.

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

j) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the income statement.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at trade date, which is the date that the Group and the Bank commits to purchase or sell the asset.

k) Investment securities — held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's and the Bank's management has the positive intention and ability to hold to maturity.
Were the Group or the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. Held-to-maturity securities are carried at amortised cost.

l) Subsidiaries

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

m) Property and Equipment

All property and equipment are recorded at cost or valuation less accumulated depreciation.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revalued amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual Rate
Buildings	1 %
Office equipment	20–25%
Vehicles	20 %

Maintenance and repair costs are charged to the income statement as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

n) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives, not exceeding five years.

o) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts and interest rate swaps are initially recognised at cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are reported in the income statement.

The Group and the Bank document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy for undertaking the hedge transaction. The Group and the Bank also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged liability that is attributable to the hedged risk.

The Group uses cash flow hedges to hedge partly or in full the variability of cash flows of the hedged item.

The portion of a loss of the hedging instrument that is determined to be an effective hedge is recognised directly in equity as "Revaluation reserve".

The fair values of financial instruments that are not quoted on active markets are determined using valuation techniques (for example, models). Models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

p) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred (fair value of consideration received). Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

q) Employee benefits

The Group and the Bank pay social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

The provision for employee holiday pay is estimated for the Group's and the Bank's personnel based on the total number of holidays earned but not taken and average salary of employees including social security expense.

r) Off-balance sheet items

In the ordinary course of business, the Group and the Bank have 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 they are funded or related fees are incurred or received.

s) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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) Off-setting financial instruments

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

3 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings as at 1 January 2005, where appropriate, unless otherwise described below.

a) *IFRIC 4, Determining whether an arrangement contains a lease (effective from 1 January 2006).* IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of the adoption of IFRIC 4.

b) *IAS 39 (amendment) — The Fair Value Option (effective from 1 January 2006).* IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit and loss ("fair value through profit and loss"). The amendment changes the definition of

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financial instruments at "fair value through profit and loss" and restricts the ability to designate financial instruments as part of this category. The adoption of the amendment to the standard has not required the Group to change its accounting practices in respect of this category.

c) *IAS 39 (amendment) — Financial Guarantee Contracts (effective from 1 January 2006).* As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at balance sheet date. This amendment did not have a significant effect on these financial statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods which the Group has not early adopted:

a) *IFRS 7, Financial Instruments: Disclosures (effective from 1 January 2007).* The IFRS requires disclosures to improve the information about financial instruments with an emphasis on quantitative aspects of risk exposures and the methods of risk management. IFRS 7 will require increased more quantitative sensitivity analysis and disclosure in the financial statements in relation to the Group's holdings of financial instruments.

b) *IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);*

c) *IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);*

d) *IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 March 2007);*

e) *IFRIC 11, IFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).*

4 FINANCIAL RISK MANAGEMENT

a) Credit risk

The Group and the Bank take on exposure to credit risk which is that a counterparty will be unable to pay amounts in full when due. The Group and the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

b) Currency risk

Upon normal business conditions the Group and the Bank take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is the risk that the Bank incurs losses as a consequence of unfavourable changes in foreign exchange rates. For assessment of this risk open FX positions are used. The Bank follows very conservative currency risk management policy. Currency risk is at low level due to insignificant volumes of open positions in foreign currencies. The Group's and the Bank's exposure to foreign currency exchange rate risk is summarised in Note 41.

c) Interest rate risk

Upon normal business conditions the Group and the Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is the risk that the Group and the Bank incurs losses as a consequence of unfavourable changes in interest rates. For assessment and management of this risk sensitivity to changes in interest rates is calculated and limited (1 bp value). Such risks are monitored on a rolling basis and are subject to annual or more frequent review. The Group's and the Bank's exposure to interest rate risk is summarised in Note 39.

d) Liquidity risk

The Group and the Bank are exposed to possible cash flows inconsistency risk arising out of usage of available cash resources for further objectives: repayment of overnight deposits, current accounts liabilities management, repayment of maturing deposits, granting committed loans, guarantees, to fulfil margin and other liabilities related to derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

Note 40 analyses assets and liabilities of the Group and the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The Group's and the Bank's liabilities on demand exceed assets with similar duration, however, the Group`s and the Bank's liquidity ratio, calculated using the methodology approved by the Financial and Capital Market Commission (FCMC), is 45%. The FCMC requires that the liquidity ratio should not be less than 30%. In the opinion of the management of the Bank, the Group's and the Bank's liquidity is sufficient to meet its operating needs. Such risks are monitored on a rolling basis and are subject to annual or more frequent review. Liquidity risk is also assessed and managed according to the methodology, set by DnB NORD Group Asset and Liability Management Committee (ALCO). This risk is limited with the liquidity risk limits, approved by ALCO.

e) Market risk

Market risk — is the risk that the Group and the Bank incur losses as a consequence of changes of market variables (interest rates, foreign exchange rates, stock prices). Methodology and limits of market risk assessment and management are approved by DnB NORD Group ALCO.

5 INTEREST INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loans	52,325	49,596	26,428	25,880
Securities	1,272	1,272	1,080	1,080
Credit institutions	1,873	1,869	837	831
	55,470	**52,737**	**28,345**	**27,791**
Cash flow from interest received	53,211	50,680	24,588	23,981

6 INTEREST EXPENSE

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit institutions	21,333	19,697	7,027	7,027
Customers	5,583	5,587	3,510	3,510
Debt securities (see Note 30)	784	784	783	783
Subordinated loan (see Note 31)	875	875	353	353
	28,575	**26,943**	**11,673**	**11,673**
Cash flow from interest paid	25,262	23,745	10,566	10,566

7 FEE AND COMMISSION INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Money transfers	1,143	1,143	1,107	1,107
Utility payment services	61	61	154	154
Cash operations	368	368	273	273
Credit card service	2,929	2,929	2,232	2,232
Client service	332	352	218	237
Commissions on loans	2,024	1,540	1,164	905
Guarantees	197	666	100	100
Dealing	32	32	30	30
Other	136	294	154	154
	7,222	**7,385**	**5,432**	**5,192**

8 FEE AND COMMISSION EXPENSES

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Money transfers	285	285	193	193
Utility payment services	–	–	6	6
Cash operations	279	279	181	181
Credit cards service	1,583	1,583	1,193	1,193
Client service	88	88	52	52
Commissions on loans	996	815	549	430
Guarantees	59	59	51	51
Dealing	72	72	64	64
Loans monitoring expense	314	312	260	260
Other	56	55	158	158
	3,732	**3,548**	**2,707**	**2,588**

9 NET TRADING INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Gain from operations with foreign currencies	2,482	2,425	1,971	1,969
Gain (loss) from trading with financial assets at fair value through profit or loss	670	670	(1)	(1)
(Loss)/gain from revaluation of financial assets at fair value through profit or loss	(375)	(375)	92	92
Gain /(loss) from foreign currency revaluation	4	13	(186)	(110)
Gain/(loss) from derivatives revaluation	32	32	(70)	(70)
(Loss) from trading with derivatives	(443)	(443)	(249)	(249)
Loans revaluation	44	44	–	–
Result from exchange rate difference in provisions	(14)	(14)	8	8
	2,400	**2,352**	**1,565**	**1,639**

10 OTHER OPERATING INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit from sale of property	664	664	511	511
Profit from sale of foreclosed property	–	–	462	462
Operating lease income	3,441	–	1,432	–
Other operating income	635	995	161	143
	4,740	**1,659**	**2,566**	**1,116**

11 ADMINISTRATIVE EXPENSES

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Salary to Council	32	32	40	40
Salary to Board	372	372	484	484
Salary to employees	6,353	5,911	4,138	3,862
Social insurance contributions	1,527	1,430	991	932
Total salaries and related expenses	**8,284**	**7,745**	**5,653**	**5,318**
Refurbishment and maintenance	1,850	1,793	1,344	1,301
Occupancy costs	1,520	1,485	809	780
Advertising	1,450	1,285	1,210	1,113
Communications	620	557	424	389
Professional services	1,187	1,163	121	101
Insurance	60	59	67	66
Business travel	130	123	69	68

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Insurance for personnel	189	178	78	75
Training	252	233	148	146
Other expatriate costs	53	53	81	81
Property and land taxes	14	14	55	55
Rebranding costs	518	513	–	–
Sponsorship and representation	573	520	381	360
Employees social expenses	258	234	163	161
Other	557	534	346	346
Total other administrative expenses	**9,231**	**8,744**	**5,296**	**5,042**
Total administrative expenses	**17,515**	**16,489**	**10,949**	**10,360**

The average number of staff employed by the Group in 2006 was 716, by the Bank was 669. (2005: 459; 440 respectively).

12 CORPORATE INCOME TAX

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Corporate income tax for the year	1,564	1,564	1,271	1,271
Deferred tax (see Note 24)	209	26	–	–
	1,773	**1,590**	**1,271**	**1,271**

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 15% rate as stipulated by the law (see below):

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit before taxation	**11,592**	**11,460**	**7,670**	**7,438**
Theoretically calculated tax at a tax rate of 15%	1,739	1,719	1,151	1,116
Net expenses not deductible for tax purposes	142	39	108	95
Taxable income	–	–	531	531
Change in unrecognised deferred tax asset	(46)	(106)	(492)	(444)
Tax discount for donations	(62)	(62)	(27)	(27)
	1,773	**1,590**	**1,271**	**1,271**

As at 31 December 2006 tax losses of the Group constituted LVL 7,765 thousand. In accordance with the law "On Corporate Income Tax" tax losses can be carried forward and set off against taxable income during the subsequent five years.

	Group Tax losses LVL'000	Expiry term
Tax losses of 2004	1,041	2009
Tax losses of 2005	2,234	2010
Tax losses of 2006	4,490	2011
	7,765	

13 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit attributable to equity holders of the Bank	9,819	9,870	6,399	6,167
Weighted average number of ordinary shares in issue	47,623,705	47,623,705	36,961,900	36,961,900
Basic earnings per share (expressed in LVL per share)	**0.207**	**0.207**	**0.173**	**0.167**
Diluted earnings per share (expressed in LVL per share)	**0.207**	**0.207**	**0.173**	**0.167**

14 CASH AND BALANCES WITH THE CENTRAL BANKS

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash	10,620	10,620	5,927	5,927
Correspondent account with Bank of Latvia	65,913	65,913	21,413	21,413
Central Bank of Estonia	4,468	4,468	–	–
	81,001	**81,001**	**27,340**	**27,340**

15 DUE FROM OTHER CREDIT INSTITUTIONS

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	26,740	26,740	3,644	3,644
OECD credit institutions	12,576	12,576	2,404	2,404
Non-OECD credit institutions	775	775	392	392
	40,091	**40,091**	**6,440**	**6,440**
Accrued interest	9	9	1	1
Total demand deposits	**40,100**	**40,100**	**6,441**	**6,441**
Term deposits				
Republic of Latvia credit institutions	10,000	10,000	8,724	8,504
OECD credit institutions	1,137	1,137	26,886	26,886
Non-OECD credit institutions	–	–	61	61
	11,137	**11,137**	**35,671**	**35,451**

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Accrued interest	2	2	27	20
Total term deposits	**11,139**	**11,139**	**35,698**	**35,471**
	51,239	**51,239**	**42,139**	**41,912**

The effective interest rate on balances due from other credit institutions as at 31 December 2006 was 2.55%. (2005: 2.40 %).

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Less than one year	81,754	71,791	32,622	28,914
More than one year	1,142,421	1,055,566	594,339	603,506
	1,224,175	**1,127,357**	**626,961**	**632,420**
Less: provisions for loan impairment losses	(8,500)	(8,500)	(4,422)	(4,422)
Accrued interest	3,886	3,684	1,303	1,349
	1,219,561	**1,122,541**	**623,842**	**629,347**

(b) Analysis of loans by client type

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Local government	8,973	8,694	8,287	8,249
Finance institutions	–	11,730	1	61,616
Public companies	9,889	9,872	4,613	4,607
Private companies	579,468	484,922	269,741	221,776
Individuals	625,455	604,593	339,709	331,905
Management/employees	390	7,546	4,610	4,267
	1,224,175	**1,127,357**	**626,961**	**632,420**
Less: provisions for loan impairment losses	(8,500)	(8,500)	(4,422)	(4,422)
Accrued interest	3,886	3,684	1,303	1,349
	1,219,561	**1,122,541**	**623,842**	**629,347**

(c) Analysis of loans by industry

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Trade	72,675	61,106	45,407	39,199
Manufacturing	107,149	79,350	56,695	41,264
Transport	51,821	31,182	37,534	25,113
Individuals	612,104	598,947	338,244	328,240
Construction	49,141	35,991	19,166	14,970
Agriculture	13,499	8,985	11,524	10,808
Non-profit and religious organisations	3,088	390	12	12
Management/employees	8,052	7,546	4,610	4,267
Management of real estate	162,853	159,546	73,736	72,012
Other	52,312	52,835	25,706	82,208
Total loans to residents	**1,132,694**	**1,035,878**	**612,634**	**618,093**

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loans issued to non-residents	91,481	91,479	14,327	14,327
	1,224,175	**1,127,357**	**626,961**	**632,420**
Less: provisions for loan impairment losses	(8,500)	(8,500)	(4,422)	(4,422)
Accrued interest	3,886	3,684	1,303	1,349
	1,219,561	**1,122,541**	**623,842**	**629,347**

(d) Analysis of loans by products

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Commercial loans	377,995	389,724	206,837	268,452
Credit lines	34,938	34,938	12,982	12,982
Finance lease	99,410	826	55,126	2,678
Overdrafts	2,237	2,237	1,343	1,343
Factoring	9,963	–	3,714	6
Express loans	14,382	14,382	9,615	9,615
Mortgage loans	685,250	685,250	337,344	337,344
Total, gross	**1,224,175**	**1,127,357**	**626,961**	**632,420**
Less: provisions for loan impairment losses	(8,500)	(8,500)	(4,422)	(4,422)
Accrued interest	3,886	3,684	1,303	1,349
	1,219,561	**1,122,541**	**623,842**	**629,347**

(e) Analysis of loans by currency structure

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loans in LVL	96,556	95,889	130,746	130,608
Loans in USD	40,284	38,345	54,062	54,104
Loans in EUR	1,087,320	993,108	442,153	447,708
Loans in EEK	15	15		
	1,224,175	**1,127,357**	**626,961**	**632,420**
Less: provisions for loan impairment losses	(8,500)	(8,500)	(4,422)	(4,422)
Accrued interest	3,886	3,684	1,303	1,349
	1,219,561	**1,122,541**	**623,842**	**629,347**

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of Ls 3 727 thousand.

The effective interest rate on loans as at 31 December 2006 was 5.86% (2005: 5.56 %).

(f) Analysis of loans by countries

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Latvia	1,132,693	1,035,877	612,636	618,095
Belize	612	612	–	–
Denmark	13	13	15	15
France	241	241	250	250
Hong Kong	5,258	5,258		
Germany	2,833	2,833	583	583
Estonia	75,775	75,773	9,389	9,389
Iceland	49	49	50	50
Ireland	584	584	1,268	1,268
Israel	47	47	–	–
Kazakhstan	5	5	–	–

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Lithuania	64	64	91	91
Norway	193	193	203	203
Russia	1,530	1,530	1,418	1,418
United Kingdom	1,680	1,680	221	221
USA	369	369	360	360
United States Minor outlying islands	63	63	41	41
Virgin Islands (British)	1,866	1,866	–	–
Virgin Islands (USA)	–	–	227	227
Sweden	210	210	118	118
Switzerland	90	90	91	91
	1,224,175	**1,127,357**	**626,961**	**632,420**
Less: provisions for loan impairment losses	(8,500)	(8,500)	(4,422)	(4,422)
Accrued interest	3,886	3,684	1,303	1,349
	1,219,561	**1,122,541**	**623,842**	**629,347**

CONTENTS

(g) Gross investment in finance lease

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Not later than 1 year	27,312	664	15,610	1,579
1 – 5 years	73,771	224	41,535	1,311
Later than 5 years	4,158	–	2,573	–
Total gross finance lease receivables	**105,241**	**888**	**59,718**	**2,890**

(h) Unearned future interest income from investments in finance lease

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Not later than 1 year	1,500	53	1,193	144
1 – 5 years	4,101	9	3,197	68
Later than 5 years	230	–	202	–
Total unearned future interest income	**5,831**	**62**	**4,592**	**212**

(i) Net investment in finance lease

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Not later than one year	25,812	611	14,417	1,435
Later than one year and not later than five years	69,670	215	38,338	1,243
Later than five years	3,928	–	2,371	–
Total net investment in finance lease	**99,140**	**826**	**55,126**	**2,678**

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES

Financial assets at fair value through profit or loss

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Latvian government securities	4,712	4,712	143	143
Latvijas Hipoteku un zemes banka Mortgage Bonds	1,341	1,341	42	42
Baltic Trust Bank Mortgage Bonds	–	–	15	15
NORD/LB's (Germany) securities	17,549	17,549	6,932	6,932
Eesti Energija, bonds (Estonia)	–	–	7,623	7,623
BBVA SENIOR FIN. S.A. UNIPERS, bonds (Spain)	4,212	4,212	–	–
OKO BANK PLC, bonds (Germany)	4,212	4,212	–	–
HSH NORDBANK, bonds (Germany)	4,221	4,221	–	–
HYPO REAL ESTATE BANK INTERN, bonds (Germany)	3,450	3,450	–	–
HSBC FRANCE S.A., bonds (France)	4,207	4,207	–	–

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
	43,904	**43,904**	**14,755**	**14,755**
Accrued interest	345	345	217	217
Total	**44,249**	**44,249**	**14,972**	**14,972**

The effective interest rate on securities at fair value through profit or loss as at 31 December 2006 was 3.90 % (2005: 3.93 %).

Held-to-maturity investments

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Latvian government securities	–	–	7,892	7,892
Latvijas Hipoteku un zemes banka Mortgage Bonds	–	–	2,542	2,542
NORD/LB's (Germany) securities	–	–	6,124	6,124
	–	**–**	**16,558**	**16,558**
Accrued interest	–	–	398	398
Total	**–**	**–**	**16,956**	**16,956**

18 EQUITY INVESTMENTS

	2006		2005	
	Groups LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Participating interests in unrelated private companies	10	10	10	10

The Bank had participating interests in following institutions:

			2006		2005	
Institution	**Industry**	**% of total voting rights**	**Groups LVL'000**	**Bank LVL'000**	**Groups LVL'000**	**Bank LVL'000**
S.W.I.F.T.	Communications		**10**	**10**	**10**	**10**

19 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Bank's investments in subsidiaries are specified as follows:

	Share capital LVL'000	Total equity LVL'000	Bank's share (%)	Investment value 31/12/06 LVL'000	Investment value 31/12/05 LVL'000
SIA DnB NORD Līzings	200	674	100%	200	200
IPAS DnB NORD Fondi	263	115	75%	263	263
AS DnB NORD Liising*	175	135	100%	175	
				638	**463**

* The Bank established a leasing subsidiary in Estonia in 2006.

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group and the Bank utilises the following derivative instruments:
Currency forwards represent commitments to purchase foreign and domestic currency.
Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

The Group's and the Bank's credit risk represents the potential cost to replace the forward or swap contracts if counterparties fail to perform their obligation. To control the level of credit risk taken, the Group and the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group's and the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The notional amounts and fair values of derivative instruments held are set out in the following table:

	Contract/ notional amount LVL'000	Fair value Assets LVL'000	Fair value Liabilities LVL'000
As at 31 December 2006			
Derivatives held for trading:			
– currency and interest rate swaps	58,834	323	100
– forwards	601	–	23
Derivatives designated as fair value hedges:			
– interest rate swap (see Note 30)	21,084	–	62
Total		**323**	**185**

21 INTANGIBLE FIXED ASSETS

Movement table of intangible assets of the Group and the Bank for 2006 is as follows:

	Group Licences and software LVL'000	Bank Licences and software LVL'000
Historical cost		
31 December 2005	**1,181**	**1,084**
Additions	329	292
Disposals and write-offs	(101)	(101)
31 December 2006	**1,409**	**1,275**
Amortisation		
31 December 2005	**902**	**880**
Amortisation for the period	124	96
Disposals and write-offs	(101)	(101)

	Group Licences and software LVL'000	Bank Licences and software LVL'000
31 December 2006	925	875
Net book value		
31 December 2005	279	204
31 December 2006	484	400

Intangible assets include advance payments for acquired intangible assets as of 31 December 2006 in amount of LVL 144 thousand (2005: LVL 120).

Movement table of intangible assets of the Group and the Bank for 2005 is as follows:

	Group Licences and software LVL'000	Bank Licences and software LVL'000
Historical cost		
31 December 2004	**1,004**	**961**
Additions	220	166
Disposals and write-offs	(43)	(43)
31 December 2005	**1,181**	**1,084**
Amortisation		
31 December 2004	**851**	**844**
Amortisation for the period	94	79
Disposals and write-offs	(43)	(43)
31 December 2005	**902**	**880**
Net book value		
31 December 2004	**153**	**117**
31 December 2005	**279**	**204**

22 PROPERTY AND EQUIPMENT

Movement table of property and equipment of the Group for 2006 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Operating lease LVL'000	Total LVL'000
Historical cost or valuation						
31 December 2005	**961**	**5,751**	**324**	**1,323**	**10,286**	**18,645**
Additions	–	2,017	70	614	16,275	18,976
Disposals and write-offs	–	(1,072)	(51)	–	(2,876)	(3,999)
31 December 2006	**961**	**6,696**	**343**	**1,937**	**23,685**	**33,622**
Depreciation						
31 December 2005	**73**	**3,611**	**138**	**214**	**1,118**	**5,154**
Depreciation for the year	9	817	60	148	2,638	3,672
Disposals and write-offs	–	(998)	(27)	–	(505)	(1,530)
31 December 2006	**82**	**3,430**	**171**	**362**	**3,251**	**7,296**
Net book value						
31 December 2005	**888**	**2,140**	**186**	**1,109**	**9,168**	**13,491**
31 December 2006	**879**	**3,266**	**172**	**1,575**	**20,434**	**26,326**

Movement table of property and equipment of the Bank for 2006 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
Historical cost or valuation					
31 December 2005	**961**	**5,677**	**324**	**1,323**	**8,285**
Additions	–	1,978	70	614	2,662
Disposals and write-offs	–	(1,064)	(51)	–	(1,115)
31 December 2006	**961**	**6,591**	**343**	**1,937**	**9,832**
Depreciation					
31 December 2005	**73**	**3,596**	**138**	**213**	**4,020**
Depreciation for the year	9	796	59	148	1,012
Disposals and write-offs	–	(996)	(27)	–	(1,023)
31 December 2006	**82**	**3,396**	**170**	**361**	**4,009**

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
Net book value					
31 December 2005	**888**	**2,081**	**186**	**1,110**	**4,265**
31 December 2006	**879**	**3,195**	**173**	**1,576**	**5,823**

Fixed assets include advance payments for acquired fixed assets and construction in progress as of 31 December 2006 in amount of LVL 111 thousand (2005: LVL 55 thousand).

Movement table of property and equipment of the Group for 2005 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Operating lease LVL'000	Total LVL'000
Historical cost or valuation						
31 December 2004	**5,264**	**5,279**	**325**	**829**	**2,946**	**14,643**

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Operating lease LVL'000	Total LVL'000
Additions	–	1,164	40	513	8,353	10,070
Disposals and write-offs	(4,303)	(692)	(41)	(19)	(1,013)	(6,068)
31 December 2005	**961**	**5,751**	**324**	**1,323**	**10,286**	**18,645**
Depreciation						
31 December 2004	**357**	**3,714**	**122**	**123**	**163**	**4,479**
Depreciation for the year	37	583	57	92	1,076	1,845
Disposals and write-offs	(321)	(686)	(41)	(1)	(121)	(1,170)
31 December 2005	**73**	**3,611**	**138**	**214**	**1,118**	**5,154**
Net book value						
31 December 2004	**4,907**	**1,565**	**203**	**706**	**2,783**	**10,164**
31 December 2005	**888**	**2,140**	**186**	**1,109**	**9,168**	**13,491**

Movement table of property and equipment of the Bank for 2005 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
Historical cost or valuation					
31 December 2004	**5,264**	**5,239**	**325**	**811**	**11,639**
Additions	–	1,126	40	513	1,679
Disposals and write-offs	(4,303)	(688)	(41)	(1)	(5,033)
31 December 2005	**961**	**5,677**	**324**	**1,323**	**8,285**
Depreciation					
31 December 2004	**357**	**3,708**	**122**	**122**	**4,309**
Depreciation for the period	37	573	57	92	759
Disposals and write-offs	(321)	(685)	(41)	(1)	(1,048)
2005. gada 31. decembrī	**73**	**3,596**	**138**	**213**	**4,020**
Net book value					
31 December 2004	**4,907**	**1,531**	**203**	**689**	**7,330**
31 December 2005	**888**	**2,081**	**186**	**1,110**	**4,265**

* The buildings were revalued in 2003 by independent valuation experts.

In August 2005 the Bank disposed of real estate at Smilšu iela 6, Riga, which is used for the Bank's head office, by entering into a sale and leaseback transaction. The net book value of the real estate amounting to Ls 3.9 million is included in disposals for the category "Land and buildings" and the profit on the sale of Ls 2.6 million is being recognised over the term of operating lease 3.5 years.

If buildings would be recorded at cost their value would be as follows:

	2006 Bank LVL'000	**2005 Bank LVL'000**
Cost	828	828
Accumulated depreciation	(73)	(64)
Net book value	**755**	**764**

23 DEFERRED EXPENSES AND ACCRUED INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Accrued interest receivable	485	481	585	597
Deferred expenses	1,267	1,214	1,819	1,776
	1,752	**1,695**	**2,404**	**2,373**

24 DEFERRED TAX

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred tax asset at the beginning of the year	–	–	–	–
Change in deferred tax asset during the year	209	26	–	–
Deferred tax at the end of the year	**209**	**26**	**–**	**–**

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred income tax liability:				
Temporary difference on fixed assets depreciation	1,757	401	843	291
Deferred income tax asset:				
Temporary difference on accruals for unused annual leave and bonuses	(131)	(127)	(91)	(88)
Other temporary differences	(252)	(248)	(307)	(307)
Tax loss carried forward	(1,165)	–	(491)	–
Deferred tax liability / (unrecognised deferred tax asset)	**209**	**26**	**(46)**	**(106)**

25 OTHER ASSETS

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Foreclosed properties	83	83	46	46
Office items	230	230	123	123
Prepayments	88	88	111	111
Credit card claims	2,465	2,465	717	717
Other	2,167	141	802	145
	5,033	**3,007**	**1,799**	**1,142**

26 PROVISIONS FOR IMPAIRMENT LOSSES ON LOANS AND OTHER ASSETS

	Loans LVL'000	Other assets LVL'000	Total LVL'000
31 December 2005	**1,950**	**–**	**1,950**
Fully provided for and written off	(207)	(70)	**(277)**
Charge to income statement:	–	–	**–**
– individual loans and assets	1,924	70	**1,994**
– homogenous groups of loans	2,200	–	**2,200**
Released during the year	(1,445)	–	**(1,445)**
31 December 2005	**4,422**	**–**	**4,422**
Fully provided for and written off	(355)	–	**(355)**
Charge to income statement:			**–**
– individual loans and assets	3,903	–	**3,903**
– homogenous groups of loans	1,653	–	**1,653**
Released during the year	(1,123)	–	**(1,123)**
31 December 2006	**8,500**	**–**	**8,500**

Income statement item “Release of previously established allowances” also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 116 thousand (in 2005: 78 thousand).
Decrease in provisions in the amount of LVL 14 thousand was charged to profit/ loss account in 2006 as a result of foreign exchange rate differences. Effect of appropriate assets revaluation is disclosed in Note 9.

27 DUE TO OTHER CREDIT INSTITUTIONS

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	15,497	15,497	18,278	18,278
OECD credit institutions	877	877	294	294
Non-OECD credit institutions	146	146	43	43
	16,520	**16,520**	**18,615**	**18,615**
Accrued interest	5	5	5	5
Total demand deposits	**16,525**	**16,525**	**18,620**	**18,620**

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Term deposits				
Republic of Latvia credit institutions	8,370	8,370	1,070	1,070
OECD credit institutions	933,094	818,284	425,512	425,512
Non-OECD credit institutions	3,996	3,996	7,028	7,028
	945,460	**830,650**	**433,610**	**433,610**
Accrued interest	3,953	3,904	1,391	1,391
Total term deposits	**949,413**	**834,554**	**435,001**	**435,001**
Total deposits	**965,938**	**851,079**	**453,621**	**453,621**

28 DUE TO CUSTOMERS

(a) Analysis of deposits by maturity and client type

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits				
Private companies	59,165	59,759	38,139	38,175
Individuals	76,107	76,107	49,707	49,707
State institutions	5,411	5,411	4,257	4,257
Funds in transit	8,408	8,408	4,303	4,303
Non-residents OECD	3,018	3,018	2,459	2,459
Non-residents non-OECD	4,370	4,370	1,462	1,462
Total demand deposits	**156,479**	**157,073**	**100,327**	**100,363**

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Term deposit accounts				
Private companies	26,416	26,416	32,756	32,756
Individuals	86,114	86,114	39,420	39,420
Non-residents OECD	5,663	5,663	2,499	2,499
Non-residents non-OECD	3,827	3,827	448	448
State institutions	36,934	36,934	9,655	9,655
Total term deposits	**158,954**	**158,954**	**84,778**	**84,778**
Accrued interest	1,309	1,309	907	907
Total deposits and transit funds	**316,742**	**317,336**	**186,012**	**186,048**

29 DEFERRED INCOME AND ACCRUED EXPENSES

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Accrued interest payable	187	187	647	647
Accrued expenses	895	851	695	673
Deferred banks income	824	549	811	670
Income from sale of office building (Note 22)	1,398	1,398	2,062	2,062
	3,304	**2,985**	**4,215**	**4,052**

30 DEBT SECURITIES IN ISSUE

On 14 May 2004 the Bank issued 30 thousand bonds with a nominal value of EUR 1 thousand each. Bonds are repayable on 14 May 2007. As at 31 December 2006 bonds with a face value of EUR 30 million (LVL 21 million) were issued. Interest rate 3% fixed, payable once a year.

To hedge the exposure to changes in fair value of bonds issued, the Bank designated a fair value hedge by entering into an interest rate swap that was designated as a hedging instrument. Changes in the fair value of the hedging instrument of LVL 62 thousand and the hedged item (bonds) of LVL 72 thousand are recognised in the income statement and in the balance sheet as a derivative financial instrument (see Note 20) and as an adjustment to the carrying value of the bonds respectively.

31 SUBORDINATED LOAN

The Bank has signed two loan agreements with NORD/LB Hanover (Germany). As at 31 December 2006 the Bank had received a loan of EUR 14 million repayable on 15 January 2014 with interest rate 6 months EURIBOR plus 0.61% and a loan of EUR 13 million repayable on 15 September 2015 with interest rate 6 months EURIBOR plus 0.6%.

The Bank has signed two loan agreements with Bank DnB NORD A/S (Denmark). As at 31 December 2006 the Bank had received a loan of EUR 16 million repayable on 15 August 2016 with interest rate 6 months EURIBOR plus 0.60% and a loan of EUR 7 million repayable on 24 November 2016 with interest rate 6 months EURIBOR plus 0.60%.

32 OTHER LIABILITIES

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Dividends payable	6	6	11	11
Provisions for pending liabilities and payments	44	44	39	39
Unsettled spot and forward foreign currency deals (net)	266	266	12	12
Other short-term liabilities	4,499	539	4,695	892
	4,815	**855**	**4,757**	**954**

33. SHARE CAPITAL

As at 31 December 2006, registered and fully paid-in share capital of the Bank amounting to Ls 56,961 thousand consists of 56,960,900 ordinary shares with voting rights with a par value of LVL 1 per share.

99.84% of the Bank's shares as at 31 December 2006 are owned by Bank DnB NORD A/S which is a joint venture owned by DnB NORD Bank ASA (51%) and the former majority shareholder Norddeutsche Landesbank Girozentrale (49%).

34 CASH AND CASH EQUIVALENTS

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash	10,620	10,620	5,927	5,927
Balances on demand with the Central Banks	70,381	70,381	21,413	21,413
	81,001	81,001	27,340	27,340
Balances due from other credit institutions with the original maturity less than 3 months	50,760	50,760	40,803	40,753
Balances on demand due to other credit institutions	(16,520)	(16,520)	(18,615)	(18,615)
	115,241	**115,241**	**49,528**	**49,478**

The correspondent account with the Bank of Latvia reflects the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

The Bank is required to comply with minimum reserve requirements set by the Bank of Latvia. This requires the Bank's monthly average LVL balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

35 CONTINGENT LIABILITIES

The Bank guarantees include the AS DnB NORD Banka guarantee for DnB NORD Līzings SIA in amount of LVL 114,810 thousand as at 31 December 2006.

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

	2006		2005
	Group LVL'000	Bank LVL'000	Bank LVL'000
Due from DnB NOR Bank ASA	3,612	3,612	14,829
Due from AB DnB NORD Bankas	146	146	103
Due from DnB NORD Polska	17	17	–
DnB NORD Līzings SIA	–	11,529	61,568
AS DnB NORD Liising	–	269	–
Balances due from related parties	**3,775**	**15,573**	**76,500**
Due to DnB NOR Bank ASA	470,051	470,051	15,479
Due to DnB NORD A/S	114,886	26	–
Due from AB DnB NORD Bankas	132	132	7,058
Due from DnB NORD Polska	–	–	7,732
Balances due to related parties	**585,069**	**470,209**	**30,269**

The Group`s and Bank`s income/expenses from transactions with related parties are analysed as follows:

	2006		2005
	Group LVL'000	Bank LVL'000	Bank LVL'000
Interest received for money market deposits/loans (net)	1,825	1,861	103
Income received from derivatives	2,288	2,288	3,159
Commission received (net)	4	694	104
Interest received on investment securities	–	–	453
Other income	–	3	–
Interest paid on money market deposits/loans (net)	(7,581)	(7,585)	(2,278)
Expenses from derivatives	(2,222)	(2,222)	(3,084)
Interest paid on subordinated loan	(194)	(194)	(336)
Commission paid (net)	(5)	(5)	(161)
Other expenses	(916)	(917)	–
	(6,801)	**(6,077)**	**(2,040)**

As at 31 December 2006 loans issued to key management personnel amounted to LVL 1,278 thousand (2005: LVL 540 thousand).

37 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In respect of financial assets and liabilities held in the balance sheet at carrying values other than fair value, in the opinion of Management the fair value of those financial assets and liabilities do not differ materially from their carrying values.

	31/12/06		31/12/05	
	Book value	**Fair value**	**Book value**	**Fair value**
Assets				
Loans to customers	1,122,541	1,122,537	629,347	629,355
Securities held to maturity	–	–	16,956	17,559

38 CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the capital resources of the Group and the Bank to cover the credit risks and similar risks arising from the portfolio of assets of the Group and the Bank and the memorandum items exposure of the Group and the Bank.

The international risk based capital adequacy ratio of the Group and the Bank as at 31 December 2006 was 8.6% and 8.6% respectively, which is above the minimum ratio of 8% recommended by the 1988 Basle Committee guidelines. At the same time risk based capital adequacy ratio calculated in accordance with the requirements of the Finance and Capital Market Commission of the Group and the Bank was 8.9% and 8.9% respectively. The Financial and Capital Market Commission, the bank regulator for the country, requires Latvian banks to maintain a capital adequacy ratio based on regulatory returns prepared under the Financial and Capital Market Commission requirements of 8% of risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items, which is determined as the sum of capital requirements of market risks.

The Financial and Capital Market Commission requirements are principally consistent with the Basle Committee guidelines and the European Union directives for the calculation of equity to be utilised in the capital adequacy ratio.

The Group's and the Bank's calculation of the capital adequacy ratio according to Finance and Capital Market Commission Guidelines as at 31 December 2006 has been set in the table below:

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Equity to be utilised in the capital adequacy ratio	114,728	114,553	61,977	61,909
Weighted assets and off-balance sheet items	1,286,189	1,282,060	685,969	681,967
Capital adequacy ratio	**8.9%**	**8.9%**	**9.0%**	**9.1%**

The Group's and the Bank's calculation of the capital adequacy ratio according to Basle Capital Accord Guidelines as at 31 December 2006 has been set in the table below:

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Equity to be utilised in the capital adequacy ratio	115,213	114,953	62,255	62,113
Weighted assets and off-balance sheet items	1,338,276	1,334,119	712,222	708,268
Capital adequacy ratio	**8.6%**	**8.6%**	**8.7%**	**8.8%**

39 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

Re-pricing maturity analysis of assets and liabilities of the Group as at 31 December 2006 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates was as follows:

LVL'000	Within 1 month	1-3 months	3-12 months	Over 12 months	Non-interest bearing	Total
Assets						
Cash and balances with the Central banks	70,381	–	–	–	10,620	81,001
Balances due from other credit institutions (demand)	40,091	–	–	–	9	40,100
Loans and advances to customers	393,389	534,352	179,109	108,825	3,886	1,219,561
Securities	11,940	25,910	1,341	4,723	345	44,259
Derivative financial instruments	323	–	–	–	–	323
Due from other credit institutions (term)	11,137	–	–	–	2	11,139
Intangible fixed assets	–	–	–	–	484	484
Property and equipment	–	–	–	–	26,326	26,326
Accrued income and other assets	–	–	–	–	6,785	6,785
Total assets	**527,261**	**560,262**	**180,450**	**113,548**	**48,457**	**1,429,978**

LVL'000	Within 1 month	1-3 months	3-12 months	Over 12 months	Non-interest bearing	Total
Liabilities						
Due to other credit institutions (demand)	16,520	–	–	–	5	16,525
Due to customers	232,611	28,409	44,242	10,171	1,309	316,742
Debt securities in issue	–	–	21,084	–	329	21,413
Derivative financial instruments	185	–	–	–	–	185
Due to other credit institutions (term)	349,145	423,424	172,891	–	3,953	949,413
Accrued expenses and other liabilities	–	–	–	–	8,498	8,498
Subordinated loan	9,839	20,381	4,920	–	489	35,629
Capital and reserves	–	–	–	–	81,573	81,573
Total liabilities	**608,300**	**472,214**	**243,137**	**10,171**	**96,156**	**1,429,978**
Interest sensitivity analysis	**(81,039)**	**88,048**	**(62,687)**	**103,377**	**(47,699)**	**–**

LVL'000	Within 1 month	1-3 months	3-12 months	Over 12 months	Non-interest bearing	Total
Interest rate swaps						
Receivable	2,181	22,033	26,444	9,558	–	60,216
Payable	1,265	11,896	26,812	20,243	–	60,216
Net interest sensitivity analysis	**(80,123)**	**98,185**	**(63,055)**	**92,692**	**(47,699)**	
31 December 2005						
Total assets	**312,047**	**254,386**	**83,009**	**68,006**	**25,846**	**743,294**
Total liabilities	**306,279**	**202,512**	**139,361**	**30,696**	**64,446**	**743,294**
Interest sensitivity analysis	**5,768**	**51,874**	**(56,352)**	**37,310**	**(38,600)**	**–**
Interest rate swaps						
Receivable	20,755	17,790	–	37,846	–	76,391
Payable	20,755	17,790	–	37,846	–	76,391
Net interest sensitivity analysis	**5,768**	**51,874**	**(56,352)**	**37,310**	**(38,600)**	**–**

Re-pricing maturity analysis of assets and liabilities of the Bank as at 31 December 2006 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates was as follows:

LVL'000	Within 1 month	1-3 months	3-12 months	Over 12 months	Non-interest bearing	Total
Assets						
Cash and balances with the Central banks	70,381	–	–	–	10,620	81,001
Balances due from other credit institutions (demand)	40,091	–	–	–	9	40,100
Loans and advances to customers	402,474	520,061	160,799	35,523	3,684	1,122,541
Securities	11,940	25,910	1,341	4,723	345	44,259
Investment in subsidiaries	–	–	–	–	638	638
Derivative financial instruments	323	–	–	–	–	323
Due from other credit institutions (term)	11,137	–	–	–	2	11,139
Intangible fixed assets	–	–	–	–	400	400
Property and equipment	–	–	–	–	5,823	5,823
Accrued income and other assets	–	–	–	–	4,702	4,702
Total assets	**536,346**	**545,971**	**162,140**	**40,246**	**26,223**	**1,310,926**

LVL'000	Within 1 month	1-3 months	3-12 months	Over 12 months	Non-interest bearing	Total
Liabilities						
Due to other credit institutions (demand)	16,520	–	–	–	5	16,525
Due to customers	233,085	28,439	44,332	10,171	1,309	317,336
Debt securities in issue	–	–	21,084	–	329	21,413
Derivative financial instruments	185	–	–	–	–	185
Due to other credit institutions (term)	234,335	423,424	172,891	–	3,904	834,554
Accrued expenses and other liabilities	–	–	–	–	4,036	4,036
Subordinated loan	9,839	20,381	4,920	–	489	35,629
Capital and reserves	–	–	–	–	81,248	81,248
Total liabilities	**493,964**	**472,244**	**243,227**	**10,171**	**91,320**	**1,310,926**
Interest sensitivity analysis	**42,382**	**73,727**	**(81,087)**	**30,075**	**(65,097)**	**–**

LVL'000	Within 1 month	1-3 months	3-12 months	Over 12 months	Non-interest bearing	Total
Interest rate swaps						
Receivable	2,181	22,033	26,444	9,558	–	60,216
Payable	1,265	11,896	26,812	20,243	–	60,216
Net interest sensitivity analysis	**43,298**	**83,864**	**(81,455)**	**19,390**	**(65,097)**	**–**
31 December 2005						
Total assets	**370,750**	**250,050**	**73,380**	**28,507**	**16,359**	**739,046**
Total liabilities	**306,315**	**202,512**	**139,361**	**30,696**	**60,162**	**739,046**
Interest sensitivity analysis	**64,435**	**47,538**	**(65,981)**	**(2,189)**	**(43,803)**	
Interest rate swaps						
Receivable	20,755	17,790	–	37,846	–	76,391
Payable	20,755	17,790	–	37,846	–	76,391
Net interest sensitivity analysis	**64,435**	**47,538**	**(65,981)**	**(2,189)**	**(43,803)**	**–**

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2006 was as follows:

LVL'000	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total
Assets					
Cash and balances with the Central banks	81,001	–	–	–	81,001
Balances due from other credit institutions (demand)	40,100	–	–	–	40,100
Loans and advances to customers	31,816	61,685	201,275	924,785	1,219,561
Securities	92	237	16	43,914	44,259
Derivative financial instruments	323	–	–	–	323
Due from other credit institutions (term)	10,672	–	–	467	11,139
Intangible fixed assets	–	–	–	484	484
Property and equipment	–	–	–	26,326	26,326
Accrued income and other assets	6,158	30	473	124	6,785
Total assets	**170,162**	**61,952**	**201,764**	**996,100**	**1,429,978**

LVL'000	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total
Liabilities					
Balances due to other credit institutions	16,525	–	–	–	16,525
Due to customers	233,576	28,527	44,426	10,213	316,742
Debt securities in issue	–	–	21,413	–	21,413
Derivative financial instruments	185	–	–	–	185
Due to other credit institutions (term)	67,421	99,722	117,396	664,874	949,413
Accrued expenses and other liabilities	7,640	26	124	708	8,498
Subordinated loan	179	287	23	35,140	35,629
Capital and reserves	–	–	–	81,573	81,573
Total liabilitiesa	**325,526**	**128,562**	**183,382**	**792,508**	**1,429,978**
Contingent liabilities	541	1,349	8,518	9,237	19,645
Commitments	65,381	20,070	40,484	6,627	132,562
Liquidity risk	**(221,286)**	**(88,029)**	**(30,620)**	**187,728**	

LVL'000	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total
31 December 2005					
Total assets	87,929	20,835	89,316	545,214	743,294
Total liabilities	228,150	40,465	84,012	390,667	743,294
Liquidity risk	(140,221)	(19,630)	(5,304)	154,547	–

	31/12/06	31/12/05	normative FCMC
Liquidity ratio Liquidity ratio	45%	36%	30%

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2006 was as follows:

LVL'000	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total
Assets					
Cash and balances with the Central banks	81,001	–	–	–	81,001
Balances due from other credit institutions (demand)	40,100	–	–	–	40,100
Loans and advances to customers	29,239	40,906	189,538	862,858	1,122,541
Securities	92	237	16	43,914	44,259
Investment in subsidiaries	–	–	–	638	638
Derivative financial instruments	323	–	–	–	323
Due from other credit institutions (term)	10,672	–	–	467	11,139
Intangible fixed assets	–	–	–	400	400
Property and equipment	–	–	–	5,823	5,823
Accrued income and other assets	4,075	30	473	124	4,702
Total assets	**165,502**	**41,173**	**190,027**	**914,224**	**1,310,926**

LVL'000	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total
Liabilities					
Balances due to other credit institutions (demand)	16,525	–	–	–	16,525
Due to customers	234,050	28,557	44,516	10,213	317,336
Debt securities in issue	–	–	21,413	–	21,413
Derivative financial instruments	185	–	–	–	185
Due to other credit institutions (term)	67,371	99,723	117,396	550,064	834,554
Accrued expenses and other liabilities	3,177	26	124	709	4,036
Subordinated loan	179	287	23	35,140	35,629
Capital and reserves	–	–	–	81,248	81,248
Total liabilities	**321,487**	**128,593**	**183,472**	**677,374**	**1,310,926**
Contingent liabilities	541	1,349	8,518	124,047	134,455
Commitments	65,381	20,070	40,484	6,627	132,562
Liquidity risk	**(221,907)**	**(108,839)**	**(42,447)**	**106,176**	**–**

LVL'000	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total
31 December 2005					
Total assets	**84,369**	**16,499**	**79,687**	**558,491**	**739,046**
Total liabilities	**224,220**	**40,465**	**84,012**	**390,349**	**739,046**
Liquidity risk	**(139,851)**	**(23,966)**	**(4,325)**	**168,142**	**–**

	31/12/06	31/12/05	normative FCMC
Liquidity ratio	45%	36%	30%

41. CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2006 was as follows:

LVL'000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and balances with the Central banks	72,662	975	2,333	5,031	81,001
Balances due from other credit institutions (demand)	26,505	3,656	3,725	6,214	40,100
Loans and advances to customers	91,567	40,378	1,087,601	15	1,219,561
Securities	6,131	–	38,118	–	44,249
Shares and other non-fixed income securities	–	–	10	–	10
Derivative financial instruments	323	–	–	–	323
Due from other credit institutions (term)	10,002	1,031	6	100	11,139
Intangible fixed assets	484	–	–	–	484
Property and equipment	26,326	–	–	–	26,326
Deferred expenses and accrued income	1,217	33	495	7	1,752
Other assets	4,797	80	106	50	5,033
Total assets	**240,014**	**46,153**	**1,132,394**	**11,417**	**1,429,978**

LVL'000	LVL	USD	EUR	Other currencies	Total
Liabilities					
Due to other credit institutions (demand)	471	520	15,527	7	16,525
Due to customers	150,264	30,836	128,068	7,574	316,742
Debt securities in issue	–	–	21,413	–	21,413
Derivative financial instruments	185	–	–	–	185
Due to other credit institutions (term)	4,882	14,209	926,322	4,000	949,413
Corporate income tax liability	170	–	–	–	170
Deferred tax liabilities	209	–	–	–	209
Deferred income and accrued expenses	2,869	22	386	27	3,304
Other liabilities	1,875	62	2,847	31	4,815
Subordinated loan	–	–	35,629	–	35,629
Capital and reserves	81,573	–	–	–	81,573
Total liabilities	**242,498**	**45,649**	**1,130,192**	**11,639**	**1,429,978**
Net long/(short) position on balance sheet	(2,484)	504	2,202	(222)	–

LVL'000	LVL	USD	EUR	Other currencies	Total
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	2,091	482	1,651	912	5,136
Forward foreign exchange receivable	28,096	29	2,121		30,246
Total foreign exchange receivable	**30,187**	**511**	**3,772**	**912**	**35,382**
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange payable		967	3,112	1,108	5,187
Forward foreign exchange payable	2046	92	28,323		30,461
Total foreign exchange payable	**2,046**	**1,059**	**31,435**	**1,108**	**35,648**
Net long/ (short) position on foreign exchange	28,141	(548)	(27,663)	(196)	(266)
Net long/ (short) position	**25,657**	**(44)**	**(25,461)**	**(418)**	**(266)**

LVL'000	LVL	USD	EUR	Other currencies	Total
31 December 2005					
Total assets	**190,636**	**76,868**	**472,867**	**2,923**	**743,294**
Total liabilities and shareholders' equity	**197,514**	**67,873**	**466,947**	**10,960**	**743,294**
Net long/ (short) position on balance sheet	**(6,878)**	**8,995**	**5,920**	**(8,037)**	**–**
Net long/(short) position on foreign exchange	(3,431)	(9,041)	(4,215)	8,245	(12)
Net long/(short) position	**(10,309)**	**(46)**	**10,135**	**208**	**(12)**

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2006 was as follows:

LVL'000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and balances with the Central banks	72,662	975	2,333	5,031	81,001
Due from other credit institutions (demand)	26,505	3,656	3,725	6,214	40,100
Loans and advances to customers	90,698	38,439	993,389	15	1,122,541
Securities	6,131	–	38,118	–	44,249
Shares and other non-fixed income securities	–	–	10	–	10
Investment in subsidiary	463	–	–	175	638
Derivative financial instruments	323	–	–	–	323
Due from other credit institutions (term)	10,002	1,031	6	100	11,139
Intangible assets	400	–	–	–	400
Property and equipment	5,823	–	–	–	5,823
Deferred expenses and accrued income	1,160	33	495	7	1,695
Other assets	2,818	80	106	3	3,007
Total assets	**216,985**	**44,214**	**1,038,182**	**11,545**	**1,310,926**

LVL'000	LVL	USD	EUR	Other currencies	Total
Liabilities					
Due to other credit institutions (demand)	471	520	15,527	7	16,525
Due to customers	150,418	30,845	128,420	7,653	317,336
Debt securities in issue	–	–	21,413	–	21,413
Derivative financial instruments	185	–	–	–	185
Due to other credit institutions (term)	4,882	12,198	813,474	4,000	834,554
Corporate income tax liability	170	–	–	–	170
Deferred tax liabilities	26	–	–	–	26
Deferred income and accrued expenses	2,550	22	386	27	2,985
Other liabilities	463	57	304	31	855
Subordinated loan	–	–	35,629	–	35,629
Capital and reserves	81,248	–	–	–	81,248
Total liabilities	**240,413**	**43,642**	**1,015,153**	**11,718**	**1,310,926**

LVL'000	LVL	USD	EUR	Other currencies	Total
Net long/(short) position on balance sheet	**(23,428)**	**572**	**23,029**	**(173)**	**–**
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	2,091	482	1,651	912	5,136
Forward foreign exchange receivable	28,096	29	2,121		30,246
Total foreign exchange receivable	**30,187**	**511**	**3,772**	**912**	**35,382**
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange payable		967	3,112	1,108	5,187
Forward foreign exchange payable	2,046	92	28,323		30,461
Total foreign exchange payable	**2,046**	**1,059**	**31,435**	**1,108**	**35,648**
Net long/(short) position on foreign exchange	28,141	(548)	(27,663)	(196)	(266)
Net long/(short) position	**4,713**	**24**	**(4,634)**	**(369)**	**(266)**

LVL'000	LVL	USD	EUR	Other currencies	Total
31 December 2005					
Total assets	**180,792**	**76,909**	**478,422**	**2,923**	**739,046**
Total liabilities and shareholders' equity	**195,803**	**67,863**	**464,420**	**10,960**	**739,046**
Net long/(short) position on balance sheet	**(15,011)**	**9,046**	**14,002**	**(8,037)**	**–**
Net long/(short) position on foreign exchange	(3,431)	(9,041)	4,215	8,245	(12)
Net long/(short) position	**(18,442)**	**5**	**18,217**	**208**	**(12)**