



AS "NORD/LB Latvija"
Gada pārskats 2005
Annual Report

LV ENG

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NORD / LB

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Report of the Supervisory Council and the Management Board

We are pleased to announce good annual results and the further growth and development of NORD/LB Latvija in 2005. The strategy of the bank accepted by the Supervisory Council and executed by the Management Board has been successful and the bank has developed strongly.

NORD/LB Latvija — a stable and dynamic bank

As in recent years NORD/LB Latvija has been one of the fastest — growing banks in Latvia in 2005 — the growth rate of total assets, the loan portfolio and the deposit base were all significantly higher than the average for the banking sector in the country as a whole.

The growth rate of the assets of NORD/LB Latvija was 92%, compared to an average growth rate of 39% in the total banking sector in 2005.

The loan portfolio of NORD/LB Latvija more than doubled in 2005 amounting to 629.3 million LVL, while the loan portfolio growth rate of the total banking sector was 59% in the reporting period.

Our customers in Latvia have demonstrated loyalty and trust in the bank and this is also reflected by the increase of the deposit portfolio of the bank. The deposits attracted by NORD/LB Latvija rose by 36% compared to the industry average of 22%.

The bank increased its market share in all major areas of banking activity during the reporting period. NORD/LB Latvija took fourth place among the 23 Latvian commercial banks both in terms of assets and in loans in 2005; this is the highest position that the bank has achieved in its history.

NORD/LB Latvija earned a net profit of LVL 6.2 million in 2005, which compares favourably to the net profit of LVL 3.5 million earned in 2004.

The most significant event of 2005 and one, which has a profound effect on the structure of shareholding of NORD/LB Latvija, took place on 21 June 2005. It was on this date that *Norddeutsche Landesbank* — the parent company of NORD/LB Latvija — signed an agreement with DnB NOR Bank ASA, the largest financial services group in Norway. The signing heralded the creation of a new joint venture — Bank DnB NORD. DnB NOR Bank ASA owns 51% of the share capital of the new joint venture, and *Norddeutsche Landesbank* owns 49%.

The agreement was finalized at the end of 2005, and Bank DnB NORD owns 99.7% of the share capital of NORD/LB Latvija.

Report of the Supervisory Council and the Management Board

(continued)

The combination of expertise, know-how and infrastructure of NORD/LB — the biggest bank in Northern Germany, and DnB NOR Bank ASA — the leading Norwegian bank allows Bank DnB NORD to provide a total portfolio of innovative and competitive financial services through the strategically important area of Northern Europe. The network of branches will extend through Denmark, Finland, Estonia, Latvia, Lithuania, Poland, Germany, Norway and Sweden. The benefits of this new form of co-operation will enable NORD/LB Latvija to become even more stable and dynamic. It will also bring more cost effective services to its customers in Latvia and other Northern European countries.

NORD/LB Latvija — a rapidly growing bank

NORD/LB Latvija has set itself a challenging goal — to become one of the biggest retail and corporate business banks in Latvia. The bank continued to work towards this goal within the reporting period.

The bank increased its capital in 2005, receiving subordinated loan to the value of EUR 13 million in September. The bank received also long term financing — received a credit facility of EUR 60 million from bank *West LB* in February, received a credit facility of EUR 20 million from the European Investment Bank in May for financing the development of SMEs of Latvia as well as entered into a loan agreement with *Bayerische Landesbank* for EUR 15 million.

NORD/LB Latvija increased its number of customers by 27% in 2005 amounting to 130 000 now. Loans to private individuals more than doubled during the year and totaled LVL 336.2 million — more than 53% of the loan portfolio. As a result of a prudent risk policy the risk position of the bank has remained stable and compares favorably with the average in the Latvian banking sector.

The bank has continued to extend the range of financial products available to both legal entities and private individuals. The bank established iNORD, a new Internet banking system in 2005. This enables the bank to use sophisticated technologies to expand the range of customer services provided. The system received a positive response from both industry experts and customers. In fact the number of NORD/LB Latvija customers who used the Internet banking system doubled in 2005. The number of transfers grew by 48% in 2005 compared to the previous year, providing more evidence that customers increasingly view the bank as a transaction bank.

The bank continued to develop its branch network in 2005 by opening four new branches in Riga and other towns of Latvia, as well as continuing its modernization plan in other parts of Latvia.

Report of the Supervisory Council and the Management Board

(continued)

2005 also proved to be a successful year for the subsidiaries of the bank. SIA NORD/LB Lizings has become the third biggest leasing company in Latvia. The second subsidiary company of the bank — NORD/LB Fondi — an investment management company — was founded in February 2005 and had attracted more than 13 000 customers by the end of the year.

Its assets in management amounted to LVL 1.2 million. It has been a successful year for the bank, and in order to strengthen the equity it has been decided to capitalize the profit of 2005.

Strategic goals for NORD/LB Latvija in 2006

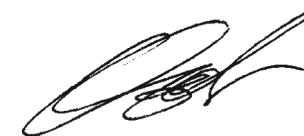
The bank plans to continue the development of its financial products and technologies in 2006. Special attention will be paid to offering even more beneficial services to private individuals, increasing the use of everyday transactions in NORD/LB Latvija and developing attractive banking products and services specifically aimed at SMEs and corporate customers. The branch network of NORD/LB Latvija will also be developed by opening several new branches in Riga and in the regions of Latvia.

NORD/LB Latvija has set an ambitious goal: to become one of the leading banks in Latvia providing the best financial products and services as well as offering high-quality services within a large branch network. We are happy to say that the bank continues to characterize its development through the dynamic way in moving forward to meet the challenges set by our ambitious objectives.



Sven Herlyn

Chairman of the Supervisory Council



Andris Ozolins

Chairman of the Management Board

The Supervisory Council and the Management Board

THE SUPERVISORY COUNCIL

Name	Institution	Position	Date of appointment
Sven Herlyn	DnB NORD	Chairman of the Council	14 September 2005*
Dr. Gunter Dunkel	Norddeutsche Landesbank	Deputy Chairman of the Council	14 September 2005**
Dr. Juergen Allerkamp	Norddeutsche Landesbank	Member of the Council	20 July 2000
Peter-Juergen Schmidt	WEDIT Deloitte & Touche	Member of the Council	20 July 2000
Dr. Gert Vogt	LB (Swiss) Privatbank AG, Zürich	Member of the Council	20 July 2000
Baiba Anda Rubess	Latvija Statoil	Member of the Council	21 March 2002
Juris Binde	Latvijas Mobilais Telefons	Member of the Council	21 March 2002

* From 20 July 2000 till 4 October 2004 Sven Herlyn was a Member of the Council; from 4 October 2004 till 14 September 2005 Sven Herlyn was the Deputy Chairman of the Council

** From 20 July 2000 till 14 September 2005 Dr. Gunter Dunkel was the Chairman of the Council

THE MANAGEMENT BOARD

Name	Position	Date of appointment
Andris Ozolins	Chairman of the Management Board	1 January 2004
Aivars Flemings	Member of the Management Board	10 September 1999
Rudolf Karges	Member of the Management Board	20 July 2000
Michael Kiesewetter	Member of the Management Board	1 July 2003
Gundars Andzans	Member of the Management Board	16 May 2005

Statement of Responsibility of the Management Board

The Management Board of NORD/LB Latvija JSC are responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 8 to 78 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2005 and the results of their operations and cash flows for the year ended 31 December 2005.

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

The Management Board of NORD/LB Latvija JSC 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.



Andris Ozolins
Chairman of the
Management Board




Aivars Flemings
Member of the
Management Board



Gundars Andzans
Member of the
Management Board



Rudolf Karges
Member of the
Management Board



Michael Kiesewetter
Member of the
Management Board

Auditors' Report

To the shareholders of NORD/LB Latvija JSC

We have audited the consolidated financial statements of NORD/LB Latvija JSC and its subsidiaries (the Group) and the financial statements of NORD/LB Latvija JSC (the Bank) for the year ended 31 December 2005 set out on pages 8 to 78. The audited financial statements include the balance sheets as of 31 December 2005, related income statements, statements of changes in equity and cash flow statements for the year then ended and note disclosure. These financial statements are the responsibility of NORD/LB Latvija JSC management. 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 issued by International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We read the management report set out on pages 2 to 4 and did not identify material inconsistencies with the audited financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2005, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SIA
Audit company licence No. 5



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

Income Statement for the year ended 31 December 2005

	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Interest income	4	25,332	24,778	13,781	13,663
Interest expense	5	(11,673)	(11,673)	(5,819)	(5,819)
Net interest income		13,659	13,105	7,962	7,844
Fee and commission income	6	8,445	8,205	5,798	5,638
Fee and commission expenses	7	(2,707)	(2,588)	(1,728)	(1,704)
Net fee and commission income		5,738	5,617	4,070	3,934
Net trading income	8	1,565	1,639	1,185	1,267
Other operating income	8a	2,566	1,116	1,001	762
Administrative expenses	9	(10,949)	(10,360)	(8,150)	(7,848)
Depreciation	17, 18	(1,939)	(838)	(903)	(723)
Other operating expense		(249)	(169)	(188)	(177)
Impairment losses on loans and other assets	22	(2,721)	(2,672)	(1,305)	(1,305)
Profit before income tax		7,670	7,438	3,672	3,754

Income Statement for the year ended 31 December 2005

(continued)

	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Corporate income tax	10	(1,271)	(1,271)	(300)	(300)
Net profit for the year		6,399	6,167	3,372	3,454
Attributable to:					
Equity holders of the Bank		6,424	6,167	3,372	3,454
Minority interest		(25)	–	–	–

The financial statements on pages 8 to 78 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, 10 March 2006

Contents

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

Balance Sheet and Memorandum Items as at 31 December 2005

(1)

Assets	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Cash and balances with the Bank of Latvia	30	27,340	27,340	9,905	9,905
Due from other credit institutions	11	42,139	41,912	34,592	34,592
Loans and advances to customers	12	623,842	629,347	305,196	307,565
Financial assets at fair value through profit or loss	13	14,972	14,972	21,703	21,703
Investment securities — held-to-maturity	13	16,956	16,956	—	—
Shares and other non-fixed income securities	14	10	10	7	7
Investments in subsidiary undertakings	15	—	463	—	200
Derivative financial instruments	16	62	62	155	155
Intangible fixed assets	17	279	204	154	117
Property and equipment	18	13,491	4,265	10,164	7,330
Deferred expenses and accrued income	19	2,404	2,373	1,161	1,137
Other assets	21	1,799	1,142	1,975	1,623
Total assets		743,294	739,046	385,012	384,334

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

Balance Sheet and Memorandum Items as at 31 December 2005

(continued)

(2)

Liabilities	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Due to other credit institutions	23	453,621	453,621	167,076	167,076
Due to customers	24	186,012	186,048	136,763	136,763
Debt securities in issue	26	22,543	22,543	22,658	22,658
Derivative financial instruments	16	–	–	23	23
Corporate income tax liability	10	1,271	1,271	–	–
Deferred income and accrued expenses	25	4,215	4,052	756	756
Other liabilities	28	4,757	954	1,341	581
Subordinated loan	27	19,179	19,179	9,972	9,972
Total liabilities		691,598	687,668	338,589	337,829
Shareholders' equity					
Share capital	29	36,961	36,961	36,961	36,961
Share premium		48,994	48,994	48,994	48,994
Other reserves		214	214	214	214
Revaluation reserve		133	133	2,086	2,086
Retained loss		(41,091)	(41,091)	(45,204)	(45,204)
Current year profit		6,424	6,167	3,372	3,454
Minority interests		61	–	–	–
Total shareholders' equity		51,696	51,378	46,423	46,505
Total liabilities and shareholders' equity		743,294	739,046	385,012	384,334

Balance Sheet and Memorandum Items as at 31 December 2005

(continued)

Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Memorandum items				
Contingent liabilities				
<i>guarantees</i>	14,645	14,645	9,820	9,820
Commitments				
<i>Credit commitments</i>	103,245	103,245	57,454	57,454
<i>letters of credit</i>	208	208	3,238	3,238

The financial statements on pages 8 to 78 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, 10 March 2006

Contents

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

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2005

Attributable to equity holders

	Share capital LVL'000	Share pre- mium LVL'000	Other reserves LVL'000	Revalua- tion reserve	Retained loss LVL'000	Current year profit LVL'000	Minority interest LVL'000	Total LVL'000
31 December 2003	20,161	44,794	214	2,086	(45,500)	1,506	–	23,261
Increase of share capital	16,800	4,200	–	–	–	–	–	21,000
Dividends paid	–	–	–	–	–	(1,210)	–	(1,210)
Transfer to retained loss	–	–	–	–	296	(296)	–	–
Profit for the year	–	–	–	–	–	3,372	–	3,372
31 December 2004	36,961	48,994	214	2,086	(45,204)	3,372	–	46,423
Decrease of revaluation reserve (see note 18)	–	–	–	(1,953)	1,953	–	–	–
Minority share of IPAS "NORD/LB 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

* IPAS "NORD/LB Fondi" was acquired on 1 January 2005. See Note 15.

Statement of Changes in Shareholders' Equity of the Bank for the year ended 31 December 2005

	Share capital	Share pre- mium	Other reserves	Re- valuation reserve	Retained loss	Current year profit	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
31 December 2003	20,161	44,794	214	2,086	(45,500)	1,506	23,261
Increase of share capital	16,800	4,200	–	–	–	–	21,000
Dividends paid	–	–	–	–	–	(1,210)	(1,210)
Transfer to retained loss	–	–	–	–	296	(296)	–
Profit for the year	–	–	–	–	–	3,454	3,454
31 December 2004	36,961	48,994	214	2,086	(45,204)	3,454	46,505
Decrease of revaluation reserve (see note 18)	–	–	–	(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

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

Statement of Cash Flows for the year ended 31 December 2005

	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Cash flows from operating activities					
Profit before income tax		7,670	7,438	3,672	3,754
Depreciation and amortisation		1,939	838	902	723
Profit from revaluation of securities		(92)	(92)	–	–
Provisions for impairment of loans and other assets, net		2,721	2,672	1,524	1,524
Profit from sale of fixed assets		(973)	(973)	(13)	(13)
Cash flows from operating activities before changes in assets and liabilities		11,265	9,883	6,085	5,988
(Increase)/decrease in other assets		172	456	(1,828)	(1,438)
Increase in other liabilities		3,558	68	2,115	1,355
(Increase) in financial assets at fair value through profit or loss		(7,648)	(7,648)	(8,908)	(8,908)
Decrease/(increase) in due from credit institutions		11,686	11,863	(11,707)	(11,707)
(Increase) in loans		(322,113)	(325,186)	(148,951)	(151,334)
Increase in due to credit institutions		285,188	285,188	71,504	71,504
Increase in deposits		50,116	50,152	42,382	42,382
Net cash and cash equivalents used in operating activities		32,224	24,776	(49,308)	(52,158)

Statement of Cash Flows for the year ended 31 December 2005

(continued)

	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Cash flows from investing activities					
Purchase of intangibles and property and equipment		(10,284)	(1,845)	(4,808)	(1,693)
Proceeds from sale of fixed assets and intangible assets		7,933	7,020	205	140
Increase in securities held to maturity		(2,845)	(2,845)	–	–
Purchase of shares of a subsidiary		(135)	(263)	–	(200)
Sale of shares and other non-fixed income securities		–	–	10	10
Cash and cash equivalents used in investment activities		(5,331)	2,067	(4,593)	(1,743)
Cash flows from financing activities					
Increase of share capital		–	–	21,000	21,000
Subordinated loan		9,337	9,337	9,842	9,842
Issue of debt securities		–	–	21,244	21,244
Dividends paid		(1,294)	(1,294)	(1,210)	(1,210)
Cash and cash equivalents from financing activities		8,043	8,043	50,876	50,876
Net increase/(decrease) in cash and cash equivalents		34,936	34,886	(3,025)	(3,025)
Cash and cash equivalents at the beginning of the year	30	14,592	14,592	17,617	17,617
Cash and cash equivalents at the end of the year	30	49,528	49,478	14,592	14,592

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

Notes to the Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

NORD/LB Latvija JSC 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 (Denmark) and the ultimate parent of the Bank is DnB NOR (Norway).

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

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). The financial statements are prepared under the historical cost convention as modified by the revaluation financial assets at fair value through profit or loss and all derivative contracts and Bank's buildings.

The preparation of financial statements in conformity with IFRS 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.

Notes to the Financial Statements

(continued)

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2005 are consistent with those used in the financial statements for the year ended 31 December 2004, except for the following:

- i) As a result of revision of IAS 39, as of 1 January 2005, gains or losses arising from changes in the fair value of securities classified as available-for-sale are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in income statement. In previous financial statements, all gains and losses from revaluation of available-for-sale securities were reported in the income statement. Those assets which have been designated as available-for sale as at 1 January 2005, in accordance with transitional provisions of IAS 39, has been designated by the Group and the Bank as financial assets at fair value through profit or loss. The comparative figures have been restated accordingly. These changes did not have effect on the reported profit and equity of the previous years.
- ii) The presentation of income statement has been changed compared to presentation in previous financial statements in order to provide more relevant information on the financial performance of the Group and the Bank.
 - a) Net interest income and expense from derivatives is disclosed under net trading income; in previous financial statements such amounts were included in interest income. The amount of the adjustment for the Group and the Bank is Ls (249) thousand for twelve months period ended 31 December 2005 (Ls 138 thousand for twelve months period ended 31 December 2004).

c) Consolidation

Subsidiary undertakings in which the Bank, directly or indirectly, has 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 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.

Notes to the Financial Statements

(continued)

Commissions received or incurred in respect of assets or liabilities are deferred and recognized 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:

<u>Reporting date</u>	<u>USD</u>	<u>EUR</u>
As at 31 December 2005	0.593	0.702804
As at 31 December 2004	0.516	0.703

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.

Notes to the Financial Statements

(continued)

g) Cash and Cash Equivalents

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

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 active markets. 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 loss 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.

Notes to the Financial Statements

(continued)

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 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.

Notes to the Financial Statements

(continued)

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:

<i>Category</i>	<i>Annual Rate</i>
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.

Notes to the Financial Statements

(continued)

n) Leasehold Improvements

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

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 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.

Notes to the Financial Statements

(continued)

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.

Notes to the Financial Statements

(continued)

3 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

The Group and the Bank take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial positions and cash flows. The Management Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table in Note 36 summarises the Group's and the Bank's exposure to foreign currency exchange rate risk at 31 December 2005.

c) Interest rate risk

The Group and the Bank take on exposure to the effects on fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored twice a month.

The Supervisory Council in March 2002 approved interest change risks limits for particular currencies. To determine the real value of interest change risks, risk parameters developed by NORD/LB group are applied. Risk controlling department prepares on a regular basis interest rate risk reports for three major currencies, where the Group and the Bank may encounter the negative impact of interest rate changes: LVL, USD and EUR. Gaps in pre-defined time periods as well as total positions are identified. To close the gaps, the Group and the Bank identifies and utilizes the stable part of demand deposits and non-interest bearing gap.

The table in Note 34 summarises the Group's and the Bank's exposure to interest rate risks.

Notes to the Financial Statements

(continued)

d) Liquidity risk

The Group and the Bank are exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled 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. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table in Note 35 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.

4 INTEREST INCOME

	2005	2005	2004	2004
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Loans	23,415	22,867	12,577	12,459
Securities	1,080	1,080	548	548
Credit institutions	837	831	656	656
	25,332	24,778	13,781	13,663
Cash flow from interest received	24,588	23,981	12,379	12,275

Notes to the Financial Statements

(continued)

5 INTEREST EXPENSE

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Credit institutions	7,027	7,027	2,289	2,289
Customers	3,510	3,510	2,776	2,776
Debt securities (see Note 26)	783	783	501	501
Subordinated loan (see Note 27)	353	353	253	253
	11,673	11,673	5,819	5,819
Cash flow from interest paid	10,566	10,566	4,305	4,305

6 FEE AND COMMISSION INCOME

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Money transfers	1,107	1,107	1,062	1,062
Utility payment services	154	154	192	192
Cash operations	273	273	203	203
Credit card service	2,232	2,232	1,531	1,531
Client service	2,621	2,640	1,069	1,070
Commissions on loans	1,774	1,515	1,363	1,202
Guarantees	100	100	138	138
Dealing	30	30	24	24
Other	154	154	216	216
	8,445	8,205	5,798	5,638

Notes to the Financial Statements

(continued)

7 FEE AND COMMISSION EXPENSES

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Money transfers	193	193	139	139
Utility payment services	6	6	10	10
Cash operations	181	181	91	91
Credit cards service	1,193	1,193	859	859
Client service	52	52	41	41
Commissions on loans	549	430	212	188
Guarantees	51	51	35	35
Dealing	64	64	81	81
Loans monitoring expense	260	260	85	85
Other	158	158	175	175
	2,707	2,588	1,728	1,704

Notes to the Financial Statements

(continued)

8 NET TRADING INCOME

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Gain from operations with foreign currencies	1,971	1,969	1,083	1,078
Profit (loss) from operations with securities	(1)	(1)	27	27
(Loss) from foreign currency revaluation	(186)	(110)	(177)	(90)
Gain/(loss) from derivatives revaluation	(70)	(70)	124	124
Profit/(loss) from operations with derivatives	(249)	(249)	138	138
Profit/(loss) from securities revaluation	92	92	(11)	(11)
Gain from exchange rate difference in provisions	8	8	1	1
	1,565	1,639	1,185	1,267

8a OTHER OPERATING INCOME

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Profit from sale of property	511	511	–	–
Profit from sale of foreclosed property	462	462	485	485
Operating lease income	1,432	–	239	–
Other operating income	161	143	277	277
	2,566	1,116	1,001	762

Notes to the Financial Statements

(continued)

9 ADMINISTRATIVE EXPENSES

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Salary to Council and Board	524	524	483	483
Salary to employees	4,138	3,862	2,979	2,849
Social insurance contributions	991	932	741	710
Total salaries and related expenses	5,653	5,318	4,203	4,042
Refurbishment and maintenance	1,344	1,301	988	967
Occupancy costs	809	780	456	433
Advertising and sponsorship	1,210	1,113	945	881
Communications	424	389	312	297
Professional services	121	101	106	91
Insurance	67	66	68	68
Business travel	69	68	48	48
Insurance for personnel	78	75	60	59
Training	148	146	116	115
Other expatriate costs	81	81	112	112
Property and land taxes	55	55	85	85
Other	890	867	651	650
Total other administrative expenses	5,296	5,042	3,947	3,806
Total administrative expenses	10,949	10,360	8,150	7,848

The average number of staff employed by the Group and the Bank in 2005 was 459 and 440 respectively (2004: 398 ; 390).

Notes to the Financial Statements

(continued)

10 CORPORATE INCOME TAX

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Current tax	1,271	1,271	–	–
Deferred tax (see Note 20)	–	–	300	300
	1,271	1,271	300	300

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):

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Profit before taxation	7,670	7,438	3,672	3,754
Theoretically calculated tax at a tax rate of 15% (12.5% — in 2004)	1,151	1,116	459	469
Expenses not deductible for tax purposes	639	626	45	35
Change in unrecognised deferred tax asset	(492)	(444)	(335)	(332)
Tax discount for donations	(27)	(27)	–	–
Effect of different tax rates applied in calculation of deferred tax	–	–	131	128
	1,271	1,271	300	300

As at 31 December 2005 tax losses of the Group constituted LVL 3,171 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.

Notes to the Financial Statements

(continued)

	Group Tax losses LVL'000	Bank Tax losses LVL'000	Expiry term
Tax losses of 2004	1,043	–	2009
Tax losses of 2005	2,128	–	2010
	3,171	–	

Notes to the Financial Statements

(continued)

11 DUE FROM OTHER CREDIT INSTITUTIONS

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	3,644	3,644	10,544	10,544
OECD credit institutions	2,404	2,404	9,831	9,831
Non-OECD credit institutions	392	392	77	77
	6,440	6,440	20,452	20,452
Accrued interest	1	1	3	3
Total demand deposits	6,441	6,441	20,455	20,455
Term deposits				
Republic of Latvia credit institutions	8,724	8,504	13,882	13,882
OECD credit institutions	26,886	26,886	232	232
Non-OECD credit institutions	61	61	–	–
	35,671	35,451	14,114	14,114
Accrued interest	27	20	23	23
Total term deposits	35,698	35,471	14,137	14,137
	42,139	41,912	34,592	34,592

The effective interest rate on balances due from other credit institutions as at 31 December 2005 was 2.40%. (2004: 2.39 %).

Notes to the Financial Statements

(continued)

12 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Less than one year	32,622	28,914	17,206	16,383
More than one year	594,339	603,506	289,124	292,330
	626,961	632,420	306,330	308,713
Less: provisions for loan impairment losses	(4,422)	(4,422)	(1,950)	(1,950)
Accrued interest	1,303	1,349	816	802
	623,842	629,347	305,196	307,565

Notes to the Financial Statements

(continued)

(b) Analysis of loans by client type

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Local government	8,287	8,249	81	76
Finance institutions	1	61,616	4,573	22,839
Public companies	4,613	4,607	15,478	15,478
Private companies	269,741	221,776	138,245	125,117
Individuals	339,709	331,905	145,609	143,065
Management/employees	4,610	4,267	2,344	2,138
	626,961	632,420	306,330	308,713
Less: provisions for loan impairment losses	(4,422)	(4,422)	(1,950)	(1,950)
Accrued interest	1,303	1,349	816	802
	623,842	629,347	305,196	307,565

Notes to the Financial Statements

(continued)

(c) Analysis of loans by industry

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Trade	45,407	39,199	25,786	21,344
Manufacturing	56,695	41,264	32,949	31,205
Transport	37,534	25,113	20,926	17,198
Individuals	338,244	328,240	144,830	142,286
Construction	19,166	14,970	5,146	4,375
Agriculture	11,524	10,808	8,913	8,472
Non-profit and religious organisations	12	12	51	36
Management/employees	4,610	4,267	2,344	2,138
Management of real estate	73,736	72,012	33,424	33,221
Other	25,706	82,208	14,973	31,450
Total loans to residents	612,634	618,093	289,342	291,725
Loans issued to non-residents	14,327	14,327	16,988	16,988
	626,961	632,420	306,330	308,713
Less: provisions for loan impairment losses	(4,422)	(4,422)	(1,950)	(1,950)
Accrued interest	1,303	1,349	816	802
	623,842	629,347	305,196	307,565

Notes to the Financial Statements

(continued)

(d) Analysis of loans by products

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Commercial loans	206,837	268,452	156,177	174,443
Credit lines	12,982	12,982	10,562	10,562
Finance lease	55,126	2,678	21,544	6,484
Overdrafts	1,343	1,343	518	518
Factoring	3,714	6	986	163
Express loans	9,615	9,615	5,374	5,374
Mortgage loans	337,344	337,344	111,169	111,169
Total, gross	626,961	632,420	306,330	308,713
Less: provisions for loan impairment losses	(4,422)	(4,422)	(1,950)	(1,950)
Accrued interest	1,303	1,349	816	802
Total, net	623,842	629,347	305,196	307,565

Notes to the Financial Statements

(continued)

(e) Analysis of loans by currency structure

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Loans in LVL	130,746	130,608	77,686	78,591
Loans in USD	54,062	54,104	107,341	107,255
Loans in EUR	442,153	447,708	121,303	122,867
	626,961	632,420	306,330	308,713
Less: provisions for loan impairment losses	(4,422)	(4,422)	(1,950)	(1,950)
Accrued interest	1,303	1,349	816	802
	623,842	629,347	305,196	307,565

Loan portfolio include loans secured by the Republic of Latvia Government guarantees of Ls 4,052 thousand

The effective interest rate on loans as at 31 December 2005 was 4.71% (2004: 5.44 %).

Notes to the Financial Statements

(continued)

(f) Analysis of loans by countries

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Latvia	612,636	618,095	289,290	291,673
Denmark	15	15	16	16
France	250	250	24	24
Germany	583	583	302	302
Estonia	9,389	9,389	7,822	7,822
Iceland	50	50	–	–
Ireland	1,268	1,268	–	–
Israel	–	–	9	9
Lithuania	91	91	4,652	4,652
Norway	203	203	–	–
Poland	–	–	3,831	3,831
Russia	1,418	1,418	46	46
United Kingdom	221	221	92	92
USA	360	360	98	98
United States Minor outlying islands	41	41	23	23
Virgin Islands (USA)	227	227	–	–
Sweden	118	118	26	26
Switzerland	91	91	99	99
	626,961	632,420	306,330	308,713
Less: provisions for loan impairment losses	(4,422)	(4,422)	(1,950)	(1,950)
Accrued interest	1,303	1,349	816	802
	623,842	629,347	305,196	307,565

Notes to the Financial Statements

(continued)

(g) Gross investment in finance lease

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Not later than 1 year	15,610	1,579	7,774	3,039
1 – 5 years	41,535	1,311	16,018	4,115
Later than 5 years	2,573	–	22	–
Total gross finance lease receivables	59,718	2,890	23,814	7,154

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

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Not later than 1 year	1,193	144	1,075	369
1 – 5 years	3,197	68	1,195	301
Later than 5 years	202	–	–	–
Total unearned future interest income	4,592	212	2,270	670

Notes to the Financial Statements

(continued)

(i) Net investment in finance lease

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Not later than one year	14,417	1,435	6,699	2,670
Later than one year and not later than five years	38,338	1,243	14,823	3,814
Later than five years	2,371	–	22	–
Total net investment in finance lease	55,126	2,678	21,544	6,484

Notes to the Financial Statements

(continued)

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

Financial assets at fair value through profit or loss

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Latvian government securities	143	143	8,342	8,342
Latvijas Hipoteku un zemes banka Mortgage Bonds	42	42	818	818
Baltic Trust Bank Mortgage Bonds	15	15	–	–
NORD/LB's (Germany) securities	6,932	6,932	12,183	12,183
Eesti Energija, bonds (Estonia)	7,623	7,623	–	–
	14,755	14,755	21,343	21,343
Accrued interest	217	217	360	360
Total	14,972	14,972	21,703	21,703

The effective interest rate on securities at fair value through profit or loss as at 31 December 2005 was 3.93% (2004: 4.01 %).

Notes to the Financial Statements

(continued)

Held-to-maturity investments

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 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	–	–

In 2002 the Bank sold significant part of its held-to-maturity investments and according to the requirements of IAS 39 all remaining portfolio was reclassified as available-for-sale. In 2005 the tainting period has passed and the Bank established a portfolio of held-to-maturity investments.

Notes to the Financial Statements

(continued)

14 SHARES AND OTHER NON-FIXED INCOME SECURITIES

The Bank had participating interests in following institutions:

Institution	Industry	% of total voting rights	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
S.W.I.F.T.	Communications		10	10	7	7

Notes to the Financial Statements

(continued)

15 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

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

	Share capital	Total equity	Bank's share	Investment value 31/12/05	Investment value 31/12/04
	LVL'000	LVL'000	(%)	LVL'000	LVL'000
SIA "NORD/LB Līzings"	200	119	100%	200	200
IPAS "NORD/LB Fondi"	350	330	75%	263	–
				463	200

SIA "NORD/LB Līzings" was registered in the Commercial Register on 8 January 2004. The Company is providing leasing and factoring services.

On 1 January 2005, JSC NORD/LB Latvija acquired 75% of the voting equity shares of IPAS "NORD/LB Fondi", an asset management company. The cost of the newly acquired subsidiary was LVL 113 thousand, paid entirely in cash.

Notes to the Financial Statements

(continued)

The amounts recognised at the acquisition date for IPAS “NORD/LB Fondi” assets, liabilities and contingent liabilities were as follows:

Summary Balance sheet	01/01/2005 LVL'000
Assets	
Placements with banks	128
Fixed assets	5
Other assets	14
Total assets	147
Liabilities	
Creditors	1
Equity	146
Total equity and liabilities	147

The acquisition of IPAS “NORD/LB Fondi” resulted in the recognition by the Group on consolidation of goodwill of LVL 3.5 thousand that was written off to income statement on the date of acquisition because the difference was immaterial.

On 8 June 2005 share capital of IPAS “NORD/LB Fondi” was increased by LVL 200 thousand. LVL 150 thousand was paid in cash by the Bank.

Notes to the Financial Statements

(continued)

16 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	Liabili- ties LVL'000
As at 31 December 2005			
Derivatives held for trading:			
- currency and interest rate swaps	55,307	49	-
Derivatives designated as fair value hedges:			
- interest rate swap (see Note 26)	21,084	13	-
Total		62	-

Notes to the Financial Statements

(continued)

17 INTANGIBLE FIXED ASSETS

	Group Licences and software LVL'000	Bank Licences and software LVL'000
<u>Historical cost</u>		
31 December 2004	1,004	961
Additions	220	166
Disposals and write-offs	(43)	(43)
31 December 2005	1,181	1,084
<u>Amortisation</u>		
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

Notes to the Financial Statements

(continued)

18 PROPERTY AND EQUIPMENT

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
<u>Historical cost or valuation</u>						
31 December 2004	5,264	5,279	325	829	2,946	14,643
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
<u>Depreciation</u>						
31 December 2004	357	3,714	122	123	163	4,479
Depreciation for the period	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
<u>Net book value</u>						
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

Notes to the Financial Statements

(continued)

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

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
<u>Historical cost or valuation*</u>					
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
<u>Depreciation</u>					
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)
31 December 2005	73	3,596	138	213	4,020
<u>Net book value</u>					
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.

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.

Notes to the Financial Statements

(continued)

Movement table of property and equipment of the Group for 2004 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
<u>Historical cost or valuation</u>						
31 December 2003	5,121	5,339	384	460	–	11,304
Additions	199	945	166	379	3,013	4,702
Disposals and write-offs	(56)	(1,005)	(225)	(10)	(67)	(1,363)
31 December 2004	5,264	5,279	325	829	2,946	14,643
<u>Depreciation</u>						
31 December 2003	312	4,252	226	78	–	4,868
Depreciation for the period	50	462	51	54	165	782
Disposals and write-offs	(5)	(1,000)	(155)	(9)	(2)	(1,171)
31 December 2004	357	3,714	122	123	163	4,479
<u>Net book value</u>						
31 December 2003	4,809	1,087	158	382	–	6,436
31 December 2004	4,907	1,565	203	706	2,783	10,164

Notes to the Financial Statements

(continued)

Movement table of property and equipment of the Bank for 2004 is as follows:

	Land and buildings LVL'000	Office equip- ment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
<u>Historical cost or valuation</u>					
31 December 2003	5,121	5,339	384	460	11,304
Additions	199	905	166	361	1,631
Disposals and write-offs	(56)	(1,005)	(225)	(10)	(1,296)
31 December 2004	5,264	5,239	325	811	11,639
<u>Depreciation</u>					
31 December 2003	312	4,252	226	78	4,868
Depreciation for the period	50	456	51	53	610
Disposals and write-offs	(5)	(1,000)	(155)	(9)	(1,169)
31 December 2004	357	3,708	122	122	4,309
Net book value					
31 December 2003	4,809	1,087	158	382	6,436
31 December 2004	4,907	1,531	203	689	7,330

Notes to the Financial Statements

(continued)

19 DEFERRED EXPENSES AND ACCRUED INCOME

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Accrued interest receivable	585	597	698	698
Deferred expenses	1,819	1,776	463	439
	2,404	2,373	1,161	1,137

20 DEFERRED TAX

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Deferred tax asset at the beginning of the year	-	-	300	300
Change in deferred tax asset during the year	-	-	(300)	(300)
Deferred tax at the end of the year	-	-	-	-

Notes to the Financial Statements

(continued)

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

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Temporary difference on fixed assets depreciation	479	291	538	380
Other temporary differences	(401)	(397)	(57)	(57)
Tax loss carried forward	(476)	–	(593)	(438)
Deferred tax (asset)	(398)	(106)	(112)	(115)
Provision for deferred tax asset	398	106	112	115
Deferred tax liability	–	–	–	–

21 OTHER ASSETS

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Foreclosed properties	46	46	484	484
Office items	123	123	88	88
Prepayments	111	111	29	29
Unsettled spot and forward foreign currency deals (net)	–	–	431	431
Credit card claims	717	717	489	489
Other	802	145	454	102
	1,799	1,142	1,975	1,623

Notes to the Financial Statements

(continued)

22 PROVISIONS FOR IMPAIRMENT LOSSES ON LOANS AND OTHER ASSETS

	Loans LVL'000	Other assets LVL'000	Total LVL'000
31 December 2004	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)
	4,422	–	4,422

Profit and loss account's item "Release of provisions for bad debts" also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 78 thousand (in 2004:85 thousand)

Increase in provisions in the amount of LVL 8 thousand was charged to profit / loss account in 2005 as a result of foreign exchange rate differences. Effect of appropriate assets revaluation is disclosed in Note 8.

Notes to the Financial Statements

(continued)

23 DUE TO OTHER CREDIT INSTITUTIONS

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions demand	18,278	18,278	15,389	15,389
OECD credit institutions	294	294	356	356
Non-OECD credit institutions	43	43	1,112	1,112
	18,615	18,615	16,857	16,857
Accrued interest	5	5	2	2
Total demand deposits	18,620	18,620	16,859	16,859
Term deposits				
Republic of Latvia credit institutions	1,070	1,070	7,740	7,740
OECD credit institutions	425,512	425,512	135,370	135,370
Non-OECD credit institutions	7,028	7,028	6,708	6,708
	433,610	433,610	149,818	149,818
Accrued interest	1,391	1,391	399	399
Total term deposits	435,001	435,001	150,217	150,217
Total deposits	453,621	453,621	167,076	167,076

Notes to the Financial Statements

(continued)

24 DUE TO CUSTOMERS

(a) Analysis of deposits by maturity and client type

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Demand deposits				
Private companies	38,139	38,175	30,034	30,034
Individuals	49,707	49,707	22,894	22,894
State institutions	4,257	4,257	4,232	4,232
Funds in transit	4,303	4,303	2,075	2,075
Non-residents OECD	2,459	2,459	1,204	1,204
Non-residents non-OECD	1,462	1,462	1,103	1,103
Total demand deposits	100,327	100,363	61,542	61,542
Term deposit accounts				
Private companies	32,756	32,756	19,617	19,617
Individuals	39,420	39,420	33,950	33,950
Non-residents OECD	2,499	2,499	3,227	3,227
Non-residents non-OECD	448	448	465	465
State institutions	9,655	9,655	17,095	17,095
Total term deposits	84,778	84,778	74,354	74,354
Accrued interest	907	907	867	867
Total deposits and transit funds	186,012	186,048	136,763	136,763

Notes to the Financial Statements

(continued)

25 DEFERRED INCOME AND ACCRUED EXPENSES

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Accrued interest payable	1,342	1,320	729	729
Deferred banks income	811	670	27	27
Income from sale of office building (Note 18)	2,062	2,062	–	–
	4,215	4,052	756	756

26 DEBT SECURITIES IN ISSUE

On 4 December 2003 the Bank issued 5 thousand bonds with a nominal value of LVL 1 thousand each. Bonds are repayable on 4 December 2006. As at 31 December 2005 bonds with a face value of LVL 1,049 thousand (2003: LVL 895 thousand) were issued. Interest rate 6 months RIGIBOR plus 0.4%, payable twice a year.

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 2005 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 13 thousand and the hedged item (bonds) of LVL 6 thousand are recognised in the income statement and in the balance sheet as a derivative financial instrument (see Note 16) and as an adjustment to the carrying value of the bonds respectively.

Notes to the Financial Statements

(continued)

27 SUBORDINATED LOAN

The Bank has signed two loan agreements with NORD/LB Hanover (Germany). As at 31 December 2005 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%.

28 OTHER LIABILITIES

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Dividends payable	11	11	14	14
Provisions for pending liabilities and payments	39	39	37	37
Provisions for off-balance sheet liabilities	12	12	–	–
Other short-term liabilities	4,695	892	1,290	530
	4,757	954	1,341	581

29 SHARE CAPITAL

As at 31 December 2005, registered and fully paid-in share capital of the Bank amounting to Ls 36,961 thousand consists of 36,960,900 ordinary shares with voting rights with a par value of LVL 1 per share.

99.71% of the Bank's shares as at 31 December 2005 are owned by Bank DnB NORD, which is a joint venture owned by DnB NOR Bank ASA (51%) and the former majority shareholder Norddeutsche Landesbank Girozentrale (49%).

Notes to the Financial Statements

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30 CASH AND CASH EQUIVALENTS

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Cash	5,927	5,927	5,246	5,246
Balances on demand with the Bank of Latvia	21,413	21,413	4,659	4,659
	<u>27,340</u>	<u>27,340</u>	9,905	9,905
Balances due from other credit institutions with the original maturity less than 3 months	40,803	40,753	21,544	21,544
Balances on demand due to other credit institutions	(18,615)	(18,615)	(16,857)	(16,857)
	<u>49,528</u>	<u>49,478</u>	<u>14,592</u>	<u>14,592</u>

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.

Notes to the Financial Statements

(continued)

31 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 Board of Directors, 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:

	2005 Bank LVL'000	2004 Bank LVL'000
Bonds issued by NORD/LB (Germany)	–	12,228
Due from NORD/LB (Germany)	–	7,058
Due from NORD/LB Lietuva	103	9
Due from DNB NOR Bank ASA	14,829	–
NORD/LB Līzings finance	61,568	18,280
Balances due from related parties	76,500	37,575
Due to DNB NOR Bank ASA	15,479	–
Due to NORD/LB (Germany)	–	31,530
Due to NORD/LB Lietuva	7,058	7,815
Due to NORD/LB (Luxembourg)	–	6,238
Due to NORD/LB Polska	7,732	–
Subordinated loan NORD/LB (Germany)	–	9,972
Balances due to related parties	30,269	55,555

Notes to the Financial Statements

(continued)

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

	2005	2004
	Bank	Bank
	LVL'000	LVL'000
Interest received for money market deposits/ loans (net)	103	54
Income received from derivatives	3,159	873
Commission received on guarantees and loan monitoring (net)	104	238
Interest received on investment securities	453	435
Interest paid on money market deposits/loans (net)	(2,278)	(800)
Expenses from derivatives	(3,084)	(733)
Interest paid on subordinated loan	(336)	(253)
Commission paid on guarantees and loan monitoring (net)	(161)	(171)
	(2,040)	(357)

As at 31 December 2005 loans issued to key management personnel amounted to LVL 540 thousand (2004: LVL 556 thousand) and interest income on these loans amounted to LVL 22 thousand (2004: LVL 24 thousand).

Notes to the Financial Statements

(continued)

32 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.

	31/12/05	31/12/05	31/12/04	31/12/04
	Book value	Fair value	Book value	Fair value
<u>Assets</u>				
Loans to customers	629,347	629,355	307,565	307,476
Securities held to maturity	16,956	17,559	–	–

Notes to the Financial Statements

(continued)

33 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 2005 was 8.7% and 8.8% 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 9.0% and 9.1% 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 utilized 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 2005 has been set in the table below:

	2005	2005	2004	2004
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Equity to be utilised in the capital adequacy ratio	61,977	61,909	52,113	52,150
Weighted assets and off-balance sheet items	685,969	681,967	344,573	343,932
Capital adequacy ratio	9.0%	9.1%	15.1%	15.2%

Notes to the Financial Statements

(continued)

The Group's and the Bank's calculation of the capital adequacy ratio according to Basle Capital Accord Guidelines as at 31 December 2005 has been set in the table below:

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Equity to be utilised in the capital adequacy ratio	62,255	62,113	53,363	53,400
Weighted assets and off-balance sheet items	712,222	708,268	351,718	351,041
Capital adequacy ratio	8.7%	8.8%	15.2%	15.2%

Notes to the Financial Statements

(continued)

34 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

Re-pricing maturity analysis of assets and liabilities of the Group as at 31 December 2005 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	3-6 months	6-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS								
Cash and balances with the Bank of Latvia	21,413	–	–	–	–	–	5,927	27,340
Balances due from other credit institutions	40,803	–	170	773	365	–	28	42,139
Loans and advances to customers	246,253	249,646	61,983	13,959	48,226	2,472	1,303	623,842
Securities	3,506	4,740	0	6,124	7,622	9,321	615	31,928
Shares and other securities	10	–	–	–	–	–	–	10
Derivative financial instruments	62	–	–	–	–	–	–	62
Intangible fixed assets	–	–	–	–	–	–	279	279
Property and equipment	–	–	–	–	–	–	13,491	13,491
Deferred expenses and accrued income	–	–	–	–	–	–	2,404	2,404
Other assets	–	–	–	–	–	–	1,799	1,799
Total assets	312,047	254,386	62,153	20,856	56,213	11,793	25,846	743,294

Notes to the Financial Statements

(continued)

LVL'000	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
LIABILITIES								
Balances due to credit institutions	158,737	180,030	110,340	3,118	–	–	1,396	453,621
Due to customers	137,703	13,346	15,420	10,483	8,113	40	907	186,012
Debt securities in issue	–	–	–	–	22,139	404	–	22,543
Derivative financial instruments	–	–	–	–	–	–	–	–
Deferred income and accrued expenses	–	–	–	–	–	–	4,215	4,215
Other liabilities	–	–	–	–	–	–	6,028	6,028
Subordinated loan	9,839	9,136	–	–	–	–	204	19,179
Capital and reserves	–	–	–	–	–	–	51,696	51,696
Total liabilities	306,279	202,512	125,760	13,601	30,252	444	64,446	743,294
Interest sensitivity analysis	5,768	51,874	(63,607)	7,255	25,961	11,349	(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	(63,607)	7,255	25,961	11,349	(38,600)	
31 December 2004								
Total assets	223,281	98,130	19,139	9,146	10,059	9,208	16,049	385,012
Total liabilities	135,362	76,896	82,789	7,934	35,607	1	46,423	385,012
Interest sensitivity analysis	87,919	21,234	(63,650)	1,212	(25,548)	9,207	(30,374)	
Interest rate swaps								
Receivable	38,700	–	–	–	22,355	–	–	61,055
Payable	39,965	–	–	–	21,090	–	–	61,055
Net interest sensitivity analysis	86,654	21,234	(63,650)	1,212	(24,283)	9,207	(30,374)	

Notes to the Financial Statements

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Re-pricing maturity analysis of assets and liabilities of the Bank as at 31 December 2005 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	3-6 months	6-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and balances with the Bank of Latvia	21,413	–	–	–	–	–	5,927	27,340
Balances due from other credit institutions	40,753	–	–	773	365	–	21	41,912
Loans and advances to customers	305,006	245,310	58,714	7,769	11,102	97	1,349	629,347
Securities	3,506	4,740	–	6,124	7,622	9,321	615	31,928
Shares and other securities	10	–	–	–	–	–	–	10
Investment in subsidiary	–	–	–	–	–	–	463	463
Derivative financial instruments	62	–	–	–	–	–	–	62
Intangible fixed assets	–	–	–	–	–	–	204	204
Property and equipment	–	–	–	–	–	–	4,265	4,265
Deferred expenses and accrued income	–	–	–	–	–	–	2,373	2,373
Other assets	–	–	–	–	–	–	1,142	1,142
Total assets	370,750	250,050	58,714	14,666	19,089	9,418	16,359	739,046

Notes to the Financial Statements

(continued)

LVL'000	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
LIABILITIES								
Balances due to credit institutions	158,737	180,030	110,340	3,118	–	–	1,396	453,621
Due to customers	137,739	13,346	15,420	10,483	8,113	40	907	186,048
Debt securities in issue	–	–	–	–	22,139	404	–	22,543
Derivative financial instruments	–	–	–	–	–	–	–	–
Deferred income and accrued expenses	–	–	–	–	–	–	4,052	4,052
Other liabilities	–	–	–	–	–	–	2,225	2,225
Subordinated loan	9,839	9,136	–	–	–	–	204	19,179
Capital and reserves	–	–	–	–	–	–	51,378	51,378
Total liabilities	306,315	202,512	125,760	13,601	30,252	444	60,162	739,046
Interest sensitivity analysis	64,435	47,538	(67,046)	1,065	(11,163)	8,974	(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	(67,046)	1,065	(11,163)	8,974	(43,803)	–
31 December 2004								
Total assets	222,649	98,264	21,630	9,146	10,059	9,208	13,378	384,334
Total liabilities	134,600	76,896	82,789	7,936	35,607	1	46,505	384,334
Interest sensitivity analysis	88,049	21,368	(61,159)	1,210	(25,548)	9,207	(33,127)	–
Interest rate swaps								
Receivable	38,700	–	–	–	22,355	–	–	61,055
Payable	39,965	–	–	–	21,090	–	–	61,055
Net interest sensitivity analysis	86,784	21,368	(61,159)	1,210	(24,283)	9,207	(33,127)	–

Notes to the Financial Statements

(continued)

35 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 2005 was as follows:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	Over 12 months LVL'000	Total LVL'000
ASSETS					
Cash and balances with the Bank of Latvia	27,340	–	–	–	27,340
Balances due from other credit institutions	40,831	–	943	365	42,139
Loans and advances to customers	16,010	20,590	81,431	505,811	623,842
Securities	17	183	6,539	25,199	31,938
Intangible assets and property and equipment	–	–	–	13,770	13,770
Accrued income and other assets	3,731	62	403	69	4,265
Total assets	87,929	20,835	89,316	545,214	743,294

Notes to the Financial Statements

(continued)

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	Over 12 months LVL'000	Total LVL'000
LIABILITIES					
Balances due to other credit institutions	79,888	26,368	57,701	289,664	453,621
Due to customers	138,378	13,411	26,030	8,193	186,012
Debt securities in issue	–	404	–	22,139	22,543
Accrued expenses and other liabilities	9,756	206	281	–	10,243
Subordinated loan	128	76	–	18,975	19,179
Capital and reserves	–	–	–	51,696	51,696
Total liabilities	228,150	40,465	84,012	390,667	743,294
Contingent liabilities	223	969	3,922	9,531	14,645
Commitments	57,024	23,274	22,161	994	103,453
Liquidity risk	(197,468)	(43,873)	(20,779)	144,022	
31 December 2004					
Total assets	49,296	20,412	52,716	262,588	385,012
Total liabilities	125,222	36,774	42,898	180,118	385,012
Liquidity risk	(75,926)	(16,362)	9,818	82,470	–
	31/12/05		31/12/04		normative FCMC
Liquidity ratio	36%		38%		30%

Notes to the Financial Statements

(continued)

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 2005 was as follows:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	Over 12 months LVL'000	Total LVL'000
ASSETS					
Cash and balances with the Bank of Latvia	27,340	–	–	–	27,340
Balances due from other credit institutions	40,774		773	365	41,912
Loans and advances to customers	13,194	16,254	71,973	527,926	629,347
Securities	17	183	6,539	25,199	31,938
Investment in subsidiary	–	–	–	463	463
Tangible and intangible assets	–	–	–	4,469	4,469
Accrued income and other assets	3,044	62	402	69	3,577
Total assets	84,369	16,499	79,687	558,491	739,046

Notes to the Financial Statements

(continued)

	Up to 1 month LVL'000	1–3 months LVL'000	3–12 months LVL'000	Over 12 months LVL'000	Total LVL'000
LIABILITIES					
Balances due to other credit institutions	79,888	26,368	57,701	289,664	453,621
Due to customers	138,414	13,411	26,030	8,193	186,048
Debt securities in issue	–	404	–	22,139	22,543
Accrued expenses and other liabilities	5,790	206	281	–	6,277
Subordinated loan	128	76	–	18,975	19,179
Capital and reserves	–	–	–	51,378	51,378
Total liabilities	224,220	40,465	84,012	390,349	739,046
Contingent liabilities	223	969	3,922	9,531	14,645
Commitments	57,024	23,274	22,161	994	103,453
Liquidity risk	(197,098)	(48,209)	(30,408)	157,617	
31 December 2004					
Total assets	48,744	18,492	51,329	265,769	384,334
Total liabilities	124,785	36,754	42,808	179,987	384,334
Liquidity risk	(76,041)	(18,262)	8,521	85,782	–
	31/12/05		31/12/04		normative FCMC
Liquidity ratio	36%		38%		30%

Notes to the Financial Statements

(continued)

36 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2005 was as follows:

LVL'000	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances with the Bank of Latvia	25,087	731	972	550	27,340
Balances due from other credit institutions	3,731	21,835	14,200	2,373	42,139
Loans and advances to customers	127,688	54,081	442,073	–	623,842
Securities	17,156	–	14,772	–	31,928
Shares and other non-fixed income securities	–	–	10	–	10
Derivative financial instruments	62	–	–	–	62
Intangible fixed assets	279	–	–	–	279
Property and equipment	13,491	–	–	–	13,491
Deferred expenses and accrued income	1,545	138	721	–	2,404
Other assets	1,597	83	119	–	1,799
Total assets	190,636	76,868	472,867	2,923	743,294

Notes to the Financial Statements

(continued)

LVL'000	LVL	USD	EUR	Other currencies	Total
LIABILITIES					
Balances due to other credit institutions	16,812	33,135	393,589	10,085	453,621
Due to customers	103,298	33,724	48,137	853	186,012
Debt securities in issue	1,058	–	21,485	–	22,543
Derivative financial instruments	–	–	–	–	–
Deferred income and accrued expenses	2,647	375	1,193	–	4,215
Other liabilities	2,824	639	2,543	22	6,028
Subordinated loan	19,179	–	–	–	19,179
Capital and reserves	51,696	–	–	–	51,696
Total liabilities	197,514	67,873	466,947	10,960	743,294
<i>Net long/(short) position on balance sheet</i>	(6,878)	8,995	5,920	(8,037)	
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	50	–	703	10	763
Forward foreign exchange receivable	–	–	3514	8286	11,800
Total foreign exchange receivable	50	–	4,217	8,296	12,563
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange payable	–	709	2	51	762
Forward foreign exchange payable	3481	8,332	–	–	11,813
Total foreign exchange payable	3,481	9,041	2	51	12,575
<i>Net long/ (short) position on foreign exchange</i>	(3,431)	(9,041)	(4,215)	8,245	(12)
<i>Net long/ (short) position</i>	(10,309)	(46)	10,135	208	(12)

Notes to the Financial Statements

(continued)

LVL'000	LVL	USD	EUR	Other currencies	Total
31 December 2004					
Total assets	133,002	109,213	140,059	2,738	385,012
Total liabilities and shareholders' equity	130,301	64,724	183,271	6,716	385,012
<i>Net long/ (short) position on balance sheet</i>	2,701	44,489	(43,212)	(3,978)	–
<i>Net long/ (short) position on foreign exchange</i>	(219)	(44,347)	41,014	3,983	431
<i>Net long/ (short) position</i>	2,482	142	(2,198)	5	431

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2005 was as follows:

LVL'000	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances with the Bank of Latvia	25,087	731	972	550	27,340
Balances due from other credit institutions	3,504	21,835	14,200	2,373	41,912
Loans and advances to customers	127,597	54,122	447,628	–	629,347
Securities	17,156	–	14,772	–	31,928
Shares and other non-fixed income securities	–	–	10	–	10
Investment in subsidiary	463	–	–	–	463
Derivative financial instruments	62	–	–	–	62
Intangible fixed assets	204	–	–	–	204
Property and equipment	4,265	–	–	–	4,265
Deferred expenses and accrued income	1,514	138	721	–	2,373
Other assets	940	83	119	–	1,142
Total assets	180,792	76,909	478,422	2,923	739,046

Notes to the Financial Statements

(continued)

LVL'000	LVL	USD	EUR	Other currencies	Total
LIABILITIES					
Balances due to other credit institutions	16,812	33,135	393,589	10,085	453,621
Due to customers	103,334	33,724	48,137	853	186,048
Debt securities in issue	1,058	–	21,485	–	22,543
Derivative financial instruments	–	–	–	–	–
Deferred income and accrued expenses	2,484	375	1,193	–	4,052
Other liabilities	1,558	629	16	22	2,225
Subordinated loan	19,179	–	–	–	19,179
Capital and reserves	51,378	–	–	–	51,378
Total liabilities	195,803	67,863	464,420	10,960	739,046
<i>Net long/(short) position on balance sheet</i>	(15,011)	9,046	14,002	(8,037)	–
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	50	–	703	10	763
Forward foreign exchange receivable	–	–	3,514	8,286	11,800
Total foreign exchange receivable	50	–	4,217	8,296	12,563
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange payable	–	709	2	51	762
Forward foreign exchange payable	3,481	8,332	–	–	11,813
Total foreign exchange payable	3,481	9,041	2	51	12,575
<i>Net long/ (short) position on foreign exchange</i>	(3,431)	(9,041)	4,215	8,245	(12)
Net long/ (short) position	(18,442)	5	18,217	208	(12)

Notes to the Financial Statements

(continued)

LVL'000	LVL	USD	EUR	Other currencies	Total
31 December 2004					
Total assets	130,958	109,064	141,574	2,738	384,334
Total liabilities and shareholders' equity	130,161	64,688	182,769	6,716	384,334
<i>Net long/ (short) position on balance sheet</i>	797	44,376	(41,195)	(3,978)	–
<i>Net long/ (short) position on foreign exchange</i>	(219)	(44,347)	41,014	3,983	431
Net long/ (short) position	578	29	(181)	5	431

As at 31 December 2004 and 2005, the Group and the Bank were in compliance with the Latvian banking legislative requirement that stipulates for that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the Bank's equity.

NORD/LB Latvija JSC Dependency Statement 2005

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Information on the Dependent Company

Name of the Dependent Company	NORD/LB Latvija JSC
Legal status of the Dependent Company	Joint stock company
Number, place and date of registration	4000 302 4725 Riga, 6 September 1991
Address	Smilshu street 6 Riga-50, LV-1003 Latvia
Financial year	1 January – 31 December 2005
Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Audit company licence No. 5 Kr. Valdemāra 19 Riga LV-1010 Latvia Responsible certified auditor: Juris Lapshe Certified auditor Certificate No 116

Statement by the Management Board

The Management Board of NORD/LB Latvija JSC hereby certifies that the Dependency Statement reflects all the transactions and other activities in which the Bank engaged or from which it refrained being a dependent company for the purposes of the Groups Act and that the said Statement provides a general idea of the relationship between NORD/LB Latvija JSC and the controlling entity.

In keeping with the circumstances of which the Management Board were aware at the time of entering into the transactions reflected in the Dependency Statement, the Bank has received an appropriate counter-performance for each transaction.

The Management Board consider that by engaging in other activities or refraining from the same in the interests of the controlling entity the Bank has not suffered losses.



Andris Ozolins
Chairman of the
Management Board



Rudolf Karges
Member of the
Management Board

Companies engaged in transactions or activities with the Company under a decisive influence of the controlling entity

As a dependent company, NORD/LB Latvija JSC entered into transactions with the following companies:

Company	Period of control	Relationship with the Dependent Company
NORD/LB, Hannover	1 January - 19 December 2005	Controlling entity
DnB NORD A/S, Denmark	20 December - 31 December 2005	Controlling entity
DnB NOR Bank ASA, Norway	20 December - 31 December 2005	A parent company of a controlling entity (51%)
NORD/LB, Luxembourg	1 January – 19 December 2005	A company grouped with the controlling entity NORD/LB, Hannover
MHB, Frankfurt	1 January – 19 December 2005	A company grouped with the controlling entity NORD/LB, Hannover
NORD/LB, London	1 January – 19 December 2005	A company grouped with the controlling entity NORD/LB, Hannover
NORD/LB Lietuva	1 January – 31 December 2005	A company grouped with the controlling entity NORD/LB, Hannover, DnB NORD A/S, Denmark
NORD/LB Polska	1 January – 31 December 2005	A company grouped with the controlling entity NORD/LB, Hannover, DnB NORD A/S, Denmark
SIA NORD/LB Lizings	1 January – 31 December 2005	A subsidiary of NORD/LB Latvija JSC
IPAS NORD/LB Fondi	1 January – 31 December 2005	A subsidiary of NORD/LB Latvija JSC

Transactions and activities performed by NORD/LB Latvija JSC in dependency circumstances for the year 2005 that affect the income statement for the reporting year

	Note	Performance LVL	Counter- performance LVL	Net result LVL
I. The Bank's transactions				
The Bank's transactions with the controlling entity *				
Interest received on money market deposits/loans	1.1	3 840	(3 840)	–
Interest received for currency and interest rate swaps	1.2	1 176 525	(1 176 525)	–
Interest received on investment securities	1.3	453 019	(453 019)	–
Commission received on guarantees and loan monitoring	1.5	3 668	(3 668)	–
Interest paid on money market deposits/loans	1.1	(1 951 510)	1 951 510	–
Interest paid on currency and interest rate swaps	1.2	(1 065 761)	1 065 761	–
Interest paid on subordinated loan	1.4	(335 846)	335 846	–
Commission paid on guarantees and loan monitoring	1.5	(161 202)	161 202	–
Total		(1 877 267)	1 877 267	–

* Controlling entity NORD/LB Hannover till 19 December 2005

AS “NORD/LB Latvija” atkarības situācijā veiktie darījumi un pasākumi 2005. gadā

(continued)

	Note	Performance LVL	Counter- performance LVL	Net result LVL
The Bank's transactions with other group companies				
Interest received for money market deposits/loans *	2.1	99 570	(99 570)	–
Interest received for currency and interest rate swaps	2.2	1 982 667	(1 982 667)	–
Commissions received on guarantees and services	2.3	99 868	(99 868)	–
Interest paid on money market deposits/loans **	2.1	(326 675)	326 675	–
Interest paid on currency and interest rate swaps	2.2	(2 018 430)	2 018 430	–
Interest from loans	2.5	1 172 383	(1 172 383)	–
Loss from FX operations, net		(3 030)	3 030	–
Commission received		5 507	(5 507)	–
Agency commission received		19 925	(19 925)	–
Rent of premises		3 061	(3 061)	–
Total		(1 034 846)	1 034 846	–
Total		(2 912 113)	2 912 113	–

* with DnB NOR ASA, Norway interest received amounted to LVL 11 708

** with DnB NOR ASA, Norway interest paid amounted to LVL 5 893.

During the reporting year by engaging in transactions or other activities with the controlling entity, with other group companies or other companies in the interests of, or encouraged by, the controlling entity or another company within the group, or refraining from them, the Bank has not suffered any losses.

Accounting policies

(1) General principles

The Dependency Statement has been prepared in compliance with the Latvian Groups Act. The terms 'controlling entity' and 'dependent company', as well as other terms in this Statement are used within the meaning of the said legislation.

(2) Materiality

In reflecting and valuing transactions and other activities in the Dependency Statement, the Company has followed the principle of materiality.

Transactions (activities), their circumstances and valuations, the non-inclusion of which in the Dependency Statement would affect the opinion of a competent user on the relationship of the Dependent Company with the controlling entity throughout the financial year, are considered material.

(3) Recording of transactions and activities

The Dependency Statement reflects transactions and other activities unprofitable for the Company to the extent of their actual performance and counter-performance.

The Dependency Statement reflects all transactions (performance and counter-performance) attributable to the reporting period that affect the income statement irrespective of the date invoices are issued or received or payments made.

If the controlling entity has notified the Dependent Company in writing by the end of the financial year as to when and how all the losses resulting from an unprofitable transaction or activity, the amount of compensation is reflected in the line 'Granted entitlement to compensation'.

(4) Performance and counter-performance

The Dependent Company's obligations pertaining to the transaction are considered the performance of a transaction. Counter-performance is the obligations by the party to the transaction other than the Dependent Company. Performance (counter-performance) can take the form of a payment, supply of goods or services, including actions carried out as operational activities, transfer of intangible assets and title as well as commitments to refrain from an action or permit an action, lease of properties, etc.

Performance and counter-performance is reflected at their fair value. Fair value is the amount for which the subject-matter of a transaction can be exchanged between informed and willing parties at arm's length.

Accounting policies

(continued)

(5) Determining fair value of transactions and activities

The Company's transactions and activities shall be valued:

- (1) based on comparison with other activities or transactions of the kind carried out by the Company with non-related parties during the reporting or previous year;
- (2) where the above has been impossible, based on comparison with other activities and transactions of the kind carried out by companies of the industry in the reporting or previous year;
- (3) where the above has been impossible, based on comparison with other information on the possible valuation of transactions or activities.

(6) Fully or partly unprofitable transactions or activities

The following transactions or activities are considered fully or partly unprofitable:

- (1) where a loss is anticipated on commencement,
- (2) which result in a gross loss, or
- (3) in which the Company, if it were independent, would never engage due to the anticipated financial result.

(7) Special risk

Transactions or activities related to special risk are those which materially differ in terms of risk from those typical of the company's or industry's business and in which the Company would never engage if it were independent.

(8) Transactions and activities materially different from core business

Transactions and activities materially different from the Company's core business are those which drastically differ from the transactions and activities typical of the Company's core business and in which the Company would never engage if it were independent.

Notes to transactions and activities performed by NORD/LB Latvija JSC in dependency circumstances

1 The Bank's transactions with the Controlling entity

- 1.1 In the reporting year NORD/LB Latvija JSC (the Bank) with the controlling entity NORD/LB, Hannover, has made a number of money market depositing/lending transactions.
- 1.2 In 2005 the Bank utilised currency and interest rate swap deals with the controlling entity NORD/LB, Hannover.
- 1.3 The Bank holds bonds issued by the controlling entity NORD/LB, Hannover.
- 1.4 The controlling entity NORD/LB, Hannover provided the subordinated loan to the Bank.
- 1.5 In 2005 the Bank received guarantees for loans granted to customers as well as paid commission to the controlling entity for loans monitoring.

2 The Bank's transactions with other companies of the group

- 2.1. In the reporting year NORD/LB Latvija JSC entered into money market depositing/lending transactions and placement of funds for payment purposes with the controlling entity's branches NORD/LB Luxembourg, NORD/LB Polska, NORD/LB Lietuva. As at 31 December 2005 the outstanding balance of loans due from the NORD/LB Lietuva amounted to LVL 102,935, including nostro account that amounted to LVL 41,737. As at 31 December 2005 the Bank had liabilities to NORD/LB Polska in amount of LVL 7,731,877, to NORD/LB Lietuva in amount of LVL 7,057,989, including vostro account that amounted to LVL 28,953.
- 2.2. As at 31 December 2005 the outstanding balance of loans due from the DnB NOR Bank ASA, Norway amounted to LVL 14,828,566, the outstanding balance of loans due to the DnB NOR Bank ASA, Norway amounted to LVL 15,478,779.
- 2.3. In 2005 the Bank entered into currency SWAP and interest rate SWAP transactions with NORD/LB Luxembourg.
- 2.4. In 2005 the Bank received guarantees for loans granted to customers as well as commission for services.
- 2.5. As at 31 December 2005 the loan issued to the subsidiary SIA NORD/LB Lizings amounted to LVL 61,771,164.
- 2.6. As at 31 December 2005 subsidiary NORD/LB Fondi had a term deposit of LVL 9,099 and demand deposit of LVL 10,667 placed with the Bank.

Review Report

TO THE MANAGEMENT BOARD OF NORD/LB LATVIJA JSC

We have reviewed the dependency statement on pages 83 to 88 of NORD/LB Latvija JSC for 2005. This dependency statement is complemented by the statement of the Management Board. This dependency statement is the responsibility of the Bank's Management Board. Our responsibility is to issue a report on this dependency statement based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the dependency statement is free from material misstatement. A review is limited primarily to inquiries of Bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review of the accompanying dependency statement of NORD/LB Latvija JSC for 2005, nothing has come to our attention that causes us to believe that information provided in the dependency statement is misstated or the disclosed value of performance of transactions is overstated, or the description and valuation of the activities by the Bank's Management Board disclosed in the dependency statement should be assessed differently.

PricewaterhouseCoopers SIA
Audit company licence No. 5



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