

AS "NORD/LB Latvija"

Gada pārskats 2004 Annual Report

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Report of the Supervisory Council and the Management Board

We are pleased to report on good annual results and the positive development of NORD/LB Latvija in 2004. The strategy of the Bank enacted by the Supervisory Council and the Management Board has been successful and the Bank has developed strongly.

In the reporting period, as in recent previous years, NORD/LB Latvija has been one of the fastest growing banks in Latvia. The growth rate of total assets, the loan portfolio and the deposit base has been significantly higher than the average for the banking sector. The average growth rate of banking assets was 37% in 2004 and the assets of NORD/LB Latvija grew by 77% amounting to LVL 385 million; the loan portfolio growth rate was 46% and 96% respectively.

The people of Latvia have demonstrated that they place a great deal of trust in the Bank, and this, combined with a positive economic situation in Latvia, caused deposits in the Bank to rise considerably. Deposits rose by 45% compared to the industry average of 36.5%.

In the reporting period the Bank increased its market share in all its major areas of banking activity, taking seventh place among the 23 Latvian commercial banks in terms of assets and fifth in terms of loans.

The Bank earned a net profit of LVL 3.4 million in 2004; this was 2.3 times the figure for 2003.

The Bank increased its capital and also attracted long-term funding during the reporting period. It negotiated a subordinated loan to the value of EUR 14 million in January 2004. In October the shareholders of the Bank decided to increase the share capital by LVL 21 million. *Norddeutsche Landesbank*, the strategic investor of NORD/LB Latvija, now owns more than 99,7% of the shares of the Bank.

Report of the Supervisory Council and the Management Board

(continued)

In the reporting period, NORD/LB Latvija obtained a syndicated loan for EUR 40 million, received a second credit line from the European Investment Bank to the value of EUR 10 million and issued EUR bonds to the value of EUR 30 million for placement in the German retail market as well as raised long-term funding in the amount of EUR 43 million on the interbank market.

NORD/LB Latvija has set an ambitious goal - to become one of the biggest banks in Latvia in both retail and corporate business. In the reporting period the Bank continued its path towards this goal. The number of customers grew by 26% in 2004, and the number now stands at more than 100,000.

The Bank continued to extend the range of financial products made available to both legal entities and private individuals, and this improvement was positively received by its customers. The Bank continued to improve the use of technology as well as expanding the range of services provided. The loan portfolio of the Bank almost doubled during the year, and amounted to LVL 304.4 million; the total credit exposure including off-balance sheet items was LVL 374.9 million. Loans to private individuals increased by 2.3 times during the year, and totalled LVL 145.6 million - more than 45% of the loan portfolio.

As a result of a prudent risk policy the risk position of the Bank has remained stable and compares favourably with the average in the Latvian banking sector.

The number of transfers grew by 22% in 2004 compared to the previous year and the turnover of transfers grew by 33%, providing evidence that customers increasingly view the Bank as a transaction bank.

Payment card business developed significantly. The number of cardholders grew by 65% and the Bank issued 25,500 new cards.

In the reporting period the Bank continued to develop its branch network by opening three new branches in Riga as well as modernising its branches in other parts of Latvia.

2004 was also successful for the subsidiary of the Bank - SIA "NORD/LB Lizings" lease company. The company was founded at the beginning of 2004 and its assets exceeded LVL 19 million at year-end. The Bank also began a joint venture at the end of 2004 between NORD/LB Latvija and the Seesam Life Latvia insurance company to create the NORD/LB Fondi investment management company.

Report of the Supervisory Council and the Management Board

(continued)

It has been a successful year for the Bank; as a result, it is decided to pay a total dividend of LVL 1.3 million to the shareholders of NORD/LB Latvija, equivalent to LVL 0.035 per share.

The Bank has a target to increase the number of private and corporate customers by 20% in 2005. The Bank plans to continue the development of financial products and technologies, paying special attention to increasing its capacity of transactions and the further development of remote banking. The branch network of NORD/LB Latvija will also be developed by opening four or five new branches in Riga and regions of Latvia.

The Bank will also intensify its financing operations for SMEs in 2005. SIA "NORD/LB Lizings" will continue to develop its role in the lease market, with particular emphasis on private individuals. NORD/LB Fondi began operating in February 2004, with an aim of attracting 10% of the state-funded second pillar pension scheme by 2008 in order to benefit from the growing trend of increasing contributions to share-based based pensions.



Dr. Gunter Dunkel

Chairman of the Supervisory Council



Andris Ozolins

Chairman of the Management Board

Riga, 9 March 2005

The Supervisory Council and the Management Board of the Bank

As at 31 December 2004:

THE SUPERVISORY COUNCIL

Name	Institution	Position	Date of appointment	Resigned on
Dr. Gunter Dunkel	Norddeutsche Landesbank	Chairman of the Council	20 July 2000	
Sven Herlyn	Norddeutsche Landesbank	Deputy Chairman of the Council	4 October 2004*	
Juergen Koesters	Norddeutsche Landesbank	Deputy Chairman of the Council	20 July 2000	15 October 2004
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	Credit Suisse First Boston	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

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

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

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 76 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2004 and the results of their operations and cash flows for the year ended 31 December 2004.

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



Michael Kiesewetter

Member of the Management Board



Rudolf Karges

Member of the Management Board



Aivars Flemings

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 subsidiary (the Group) and the financial statements of NORD/LB Latvija JSC (the Bank) for the year ended 31 December 2004 set out on pages 8 to 76. The audited financial statements include the balance sheets as of 31 December 2004, related income statements, statement of changes in equity and cash flow statements for the year then ended and note disclosure. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 3 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 2004, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

SIA "PricewaterhouseCoopers"
Audit company licence No. 5

Juris Lapse
Certified auditor
Certificate No. 116
Member of the Board
Riga, 9 March 2005



Income Statement for the year ended 31 December 2004

	Notes	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Interest income	4	13,919	13,801	7,897
Interest expense	5	(5,819)	(5,819)	(2,893)
Net interest income		8,100	7,982	5,004
Fee and commission income	6	5,798	5,638	4,111
Fee and commission expenses	7	(1,728)	(1,704)	(1,354)
Net fee and commission income		4,070	3,934	2,757
Net trading income	8	1,047	1,129	753
Other operating income		1,001	762	399
Operating income		14,218	13,807	8,913

Income Statement for the year ended 31 December 2004

(continued)

Administrative expenses	9	(8,150)	(7,848)	(6,530)
Depreciation	17, 18	(738)	(723)	(640)
Other operating expense		(353)	(177)	(129)
Impairment losses on loans and other assets	22	(1,305)	(1,305)	(408)
Profit before income tax		3,672	3,754	1,206
Corporate income tax	10	(300)	(300)	300
Net profit for the period		3,372	3,454	1,506

The financial statements on pages 8 to 76 have been approved by the Council and the Board of the Bank and signed on their behalf by:



Dr. Gunter Dunkel

Chairman of the Supervisory Council



Andris Ozolins

Chairman of the Management Board



Rudolf Karges

Member of the Management Board

Riga, 9 March 2005

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

Balance Sheet and Memorandum Items as at 31 December 2004

(1)

	Notes	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Assets				
Cash and balances with the Bank of Latvia		9,905	9,905	7,359
Due from other credit institutions	11	34,566	34,566	31,311
Loans and advances to customers	12	304,380	306,763	156,953
Investment securities	13	21,343	21,343	12,435
Shares and other non-fixed income securities	14	7	7	17
Investment in subsidiary	15	-	200	-
Derivative financial instruments	16	155	155	25
Intangible fixed assets	17	154	117	168
Property and equipment	18	10,164	7,330	6,436
Deferred expenses and accrued income	19	2,363	2,325	663
Deferred tax asset	20	-	-	300
Other assets	21	1,975	1,623	1,847
Total assets		385,012	384,334	217,514

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

Balance Sheet and Memorandum Items as at 31 December 2004

(continued)

(2)

	Notes	2004 Group LVL`000	2004 Bank LVL`000	2003 Bank LVL`000
Liabilities				
Due to other credit institutions	23	166,675	166,675	98,052
Due to customers	24	135,896	135,896	93,514
Debt securities in issue	26	22,253	22,253	895
Derivative financial instruments	16	23	23	17
Deferred income and accrued expenses	25	2,559	2,559	1,045
Other liabilities	28	1,341	581	730
Subordinated loan	27	9,842	9,842	-
Total liabilities		338,589	337,829	194,253
Shareholders' equity				
Share capital	29	36,961	36,961	20,161
Share premium		48,994	48,994	44,794
Reserve capital		214	214	214
Revaluation reserve		2,086	2,086	2,086
Retained loss		(45,204)	(45,204)	(45,500)
Current year profit	30	3,372	3,454	1,506
Total shareholders' equity		46,423	46,505	23,261
Total liabilities and shareholders' equity		385,012	384,334	217,514

Balance Sheet and Memorandum Items as at 31 December 2004

(continued)

Memorandum items

Contingent liabilities			
<i>guarantees</i>	9,820	9,820	7,298
Commitments			
<i>other liabilities</i>	57,454	57,454	37,628
<i>letters of credit</i>	3,238	3,238	-

The financial statements on pages 8 to 76 have been approved by the Council and the Board of the Bank and signed on their behalf by:



Dr. Gunter Dunkel

Chairman of the Supervisory Council



Andris Ozolins

Chairman of the Management Board



Rudolf Karges

Member of the Management Board

Riga, 9 March 2005

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

Statement of Changes in Shareholders' Equity of the Group for the year ended 31 December 2004

	Share capital LVL`000	Share premium LVL`000	Reserve capital LVL`000	Revaluation reserve LVL`000	Retained loss LVL`000	Current year profit LVL`000	Total LVL`000
31 December 2002	20,161	44,794	214	2,086	(45,627)	1,336	22,964
Dividends paid	-	-	-	-	-	(1,209)	(1,209)
Transfer to retained loss	-	-	-	-	127	(127)	-
Profit for the year	-	-	-	-	-	1,506	1,506
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

* Decision to increase the Bank's share capital was taken at the shareholders' meeting on 5 October 2004. See Note 29.

Statement of Changes in Shareholders' Equity of the Bank for the year ended 31 December 2004

(continued)

	Share capital LVL`000	Share premium LVL`000	Reserve capital LVL`000	Revaluation reserve LVL`000	Retained loss LVL`000	Current year profit LVL`000	Total LVL`000
31 December 2002	20,161	44,794	214	2,086	(45,627)	1,336	22,964
Dividends paid	-	-	-	-	-	(1,209)	(1,209)
Transfer to retained loss	-	-	-	-	127	(127)	-
Profit for the year	-	-	-	-	-	1,506	1,506
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

* Decision to increase the Bank's share capital was taken at the shareholders' meeting on 5 October 2004. See Note 29.

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

Statement of Cash Flows for the year ended 31 December 2004

Notes	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Cash flows from operating activities			
Profit before income tax	3,672	3,754	1,206
Depreciation and amortisation	902	723	640
Provisions for bad debts, net	1,524	1,524	596
Gain on sales of fixed assets	(13)	(13)	(9)
Cash flows from operating profits before changes in assets and liabilities	6,085	5,988	2,433
(Increase) of deferred expenses and accrued income	(1,700)	(1,662)	(37)
(Increase)/decrease in other assets	(128)	224	(548)
Increase of deferred income and accrued expense	1,514	1,514	328
Increase/(decrease) in other liabilities	601	(159)	(29)
Decrease/(increase) in investment securities	(8,908)	(8,908)	3,750
(Increase) in due from credit institutions	(11,707)	(11,707)	(793)
(Increase) in loans	(148,951)	(151,334)	(69,238)
Increase in due to credit institutions	71,504	71,504	39,459
Increase in deposits	42,382	42,382	29,818
Net cash and cash equivalents used in operating activities	(49,308)	(52,158)	5,143

Statement of Cash Flows for the year ended 31 December 2004

(continued)

Cash flows from investing activities

Purchase of intangibles and property and equipment	(4,808)	(1,693)	(1,205)
Proceeds from sale of fixed assets and intangible assets	205	140	67
Purchase of shares of a subsidiary	-	(200)	-
Sale of shares and other non-fixed income securities	10	10	(2)
Cash and cash equivalents used in investment activities	(4,593)	(1,743)	(1,140)

Cash flows from financing activities

Increase of share capital	21,000	21,000	-
Subordinated loan	9,842	9,842	-
Issue of debt securities	21,244	21,244	895
Dividends paid	(1,210)	(1,210)	(1,209)
Cash and cash equivalents from financing activities	50,876	50,876	(314)
Net increase/(decrease) in cash and cash equivalents	(3,025)	(3,025)	3,689

Cash and cash equivalents at the beginning of the year	31	17,617	17,617	13,928
Cash and cash equivalents at the end of the year	31	14,592	14,592	17,617

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 Bank being part of NORD/LB group 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. The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading, all derivative contracts and Bank's buildings.

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

The current financial year was the first year when the Bank applied IAS 27 in respect of consolidation. The comparative figures for the Group are the Bank's figures.

Notes to the Financial Statements

(continued)

c) Consolidation

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

Subsidiary is 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.

Investment in subsidiary in the Bank's financial statements is accounted at cost.

d) Income and Expense Recognition

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis 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.

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

Notes to the Financial Statements

(continued)

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 2004	0.516	0.703
As at 31 December 2003	0.541	0.674

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 based on the tax rates 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) Originated loans and provisions for loan impairment

Loans provided by the Group and the Bank directly to the borrower are categorised as loans originated by the Group or the Bank and are carried at amortised cost.

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 loan impairment provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the bad and doubtful debt expense in the income statement.

Notes to the Financial Statements

(continued)

(b) Originated loans and provisions for loan impairment (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.

j) Investment securities

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Notes to the Financial Statements

(continued)

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of available-for-sale investments is derived from the value of an instrument that is substantially the same or from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities available-for-sale are recognised in the income statement.

Interest earned whilst holding investment securities is recorded as interest income.

All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Group and the Bank commits to purchase or sell the asset.

k) 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 of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

<u>Category</u>	<u>Annual Rate</u>
Buildings	1%
Office equipment	20% - 25%
Vehicles	20%

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

Notes to the Financial Statements

(continued)

l) 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.

m) 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 documents, 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 documents 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.

n) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds 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)

o) Provision for employee holiday pay

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.

p) Social security contributions

The Group and the Bank pays 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.

q) Off-balance sheet items

In the ordinary course of business, the Group and the Bank has been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

r) 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.

s) 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)

t) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 FINANCIAL RISK MANAGEMENT

a) Credit risk

The Group and the Bank takes 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 takes 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 37 summarises the Group's and the Bank's exposure to foreign currency exchange rate risk at 31 December 2004.

Notes to the Financial Statements

(continued)

c) Interest rate risk

The Group and the Bank takes 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 predefined time periods as well as total positions are identified. To close the gaps, the Group and the Bank identifies and utilises the stable part of demand deposits and non-interest bearing gap.

The table in Note 35 summarises the Group's and the Bank's exposure to interest rate risks.

d) Liquidity risk

The Group and the Bank is 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 does 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 36 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.

Notes to the Financial Statements

(continued)

4 INTEREST INCOME

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Loans	12,577	12,459	6,969
Investment securities	548	548	613
Credit institutions	794	794	315
	13,91	13,801	7,897

5 INTEREST EXPENSE

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Credit institutions	2,289	2,289	1,266
Customers	2,776	2,776	1,623
Debt securities (see Note 26)	501	501	4
Subordinated loan (see Note 27)	253	253	-
	5,819	5,819	2,893

Notes to the Financial Statements

(continued)

6 FEE AND COMMISSION INCOME

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Money transfers	1,062	1,062	814
Utility payment services	192	192	285
Cash operations	203	203	176
Credit card service	1,531	1,531	1,117
Client service	1,069	1,070	211
Commissions on loans	1,363	1,202	1,219
Guarantees	138	138	200
Dealing	24	24	13
Other	216	216	76
	5,798	5,638	4,111

Notes to the Financial Statements

(continued)

7 FEE AND COMMISSION EXPENSES

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Money transfers	139	139	132
Utility payment services	10	10	7
Cash operations	91	91	50
Credit cards service	859	859	691
Client service	41	41	18
Commissions on loans	212	188	71
Guarantees	35	35	51
Dealing	81	81	115
Loans monitoring expense	85	85	21
Other	175	175	198
	1,728	1,704	1,354

Notes to the Financial Statements

(continued)

8 NET TRADING INCOME

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Gain from operations with foreign currencies	1,083	1,078	849
Profit from operations with trading securities	27	27	26
Loss from foreign currency revaluation	(177)	(90)	(190)
Gain from derivatives revaluation	124	124	73
Loss from securities revaluation	(11)	(11)	(9)
Gain from exchange rate difference in provisions	1	1	4
	1,047	1,129	753

Notes to the Financial Statements

(continued)

9 ADMINISTRATIVE EXPENSES

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Salary to Council and Board	483	483	492
Salary to employees	2,979	2,849	2,322
Social insurance contributions	741	710	575
Total salaries and related expenses	4,203	4,042	3,389
Refurbishment and maintenance	988	967	632
Occupancy costs	456	433	361
Advertising and sponsorship	945	881	899
Communications	312	297	256
Professional services	106	91	58
Insurance	68	68	82
Business travel	48	48	34
Insurance for personnel	60	59	43
Training	116	115	41
Other expatriate costs	112	112	217
Property and land taxes	85	85	83
Other	651	650	435
Total other administrative expenses	3,947	3,806	3,141
Total administrative expenses	8,150	7,848	6,530

The average number of staff employed by the Group and the Bank in 2004 was 390 (2003: 380).

Notes to the Financial Statements

(continued)

10 CORPORATE INCOME TAX

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Deferred tax (see Note 18)	(300)	(300)	300

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 12.5% rate as stipulated by the law (see below):

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Profit before taxation	3,672	3,754	1,206
Theoretically calculated tax at a tax rate of 12.5%	459	469	150
Expenses not deductible for tax purposes	45	35	42
Change in provision for deferred tax asset	(335)	(332)	(494)
Effect of different tax rates applied in calculation of deferred tax	131	128	-
	300	300	(300)

Notes to the Financial Statements

(continued)

Corporate income tax for 2004 is calculated based on the assumption that the Bank is entitled to a tax holiday starting from the first year of profit, due to foreign investors owning more than 50% of the issued share capital and an investment of over USD 1,000,000. The tax holiday results in no corporate income tax payable for the first three years of the holiday, and in the five years following, corporate income tax is payable at 50% of nominal rate (25% for the enterprises having tax holiday). The tax holiday commenced in 1997 and ended in 2004.

Deferred tax is therefore calculated by using Corporate Income Tax rate 15%.

As at 31 December 2004 tax losses of the Bank constituted LVL 2,918 thousand and tax losses of the Group constituted LVL 3,961 thousand. In accordance with the law "On Corporate Income Tax" tax losses can be carried forward and set off against taxable income during the subsequent five years.

	Group Tax losses LVL`000	Bank Tax losses LVL`000	Expiry term
Tax losses of 2000	2,918	2,918	2005
Tax losses of 2004	1,043	-	2009
	3,961	2,918	

Notes to the Financial Statements

(continued)

11 DUE FROM OTHER CREDIT INSTITUTIONS

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Demand deposits			
Republic of Latvia credit institutions	10,544	10,544	12,103
OECD credit institutions	9,831	9,831	5,791
Non-OECD credit institutions	77	77	23
Total demand deposits	20,452	20,452	17,917
Term deposits			
Republic of Latvia credit institutions	13,882	13,882	12,741
OECD credit institutions	232	232	599
Non-OECD credit institutions	-	-	54
Total term deposits	14,114	14,114	13,394
	34,566	34,566	31,311

Notes to the Financial Statements

(continued)

The largest financial institutions with which the Bank holds demand and term deposits as at 31 December 2004:

	2004	2003
	Bank	Bank
	LVL'000	LVL'000
Latvian credit institutions:		
Nordea Bank Finland Plc Latvia branch	7,500	5,000
HVB Bank Latvia	6,500	6,000
Latvijas Krājbanka	3,000	1,600
Latvijas Hipotēku un Zemes Banka	2,882	741
Baltic Trust Bank	2,000	2,000
Parekss Banka	1,500	2,000
Latvijas Unibanka	1,030	5,206

Notes to the Financial Statements

(continued)

12 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Less than one year	17,206	16,383	15,341
More than one year	289,124	292,330	142,407
	306,330	308,713	157,748
Less: provisions for loan impairment losses	(1,950)	(1,950)	(795)
	304,380	306,763	156,953

Notes to the Financial Statements

(continued)

(b) Analysis of loans by client type

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Local government	81	76	103
Finance institutions	4,573	22,839	6
Public companies	15,478	15,478	5,262
Private companies	138,245	125,117	87,928
Individuals	145,609	143,065	63,560
Management/employees	2,344	2,138	889
	306,330	308,713	157,748
Less: provisions for loan impairment losses	(1,950)	(1,950)	(795)
	304,380	306,763	156,953

Notes to the Financial Statements

(continued)

(c) Analysis of loans by industry

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Trade	25,786	21,344	19,745
Manufacturing	32,949	31,205	23,281
Transport	20,926	17,198	9,147
Individuals	144,830	142,286	63,060
Construction	5,146	4,375	2,959
Agriculture	8,913	8,472	3,231
Non-profit and religious organisations	51	36	38
Management/employees	2,344	2,138	889
Management of real estate	33,424	33,221	19,601
Other	14,973	31,450	10,785
Total loans to residents	289,342	291,725	152,736
Loans issued to non-residents	16,988	16,988	5,012
	306,330	308,713	157,748
Less: provisions for loan impairment losses	(1,950)	(1,950)	(795)
	304,380	306,763	156,953

Notes to the Financial Statements

(continued)

(d) Analysis of loans by products

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Commercial loans	156,177	174,443	87,864
Credit lines	10,562	10,562	9,319
Finance lease	21,544	6,484	7,839
Overdrafts	518	518	250
Factoring	986	163	275
Express loans	5,374	5,374	2,582
Mortgage loans	111,169	111,169	49,619
	306,330	308,713	157,748
Less: provisions for loan impairment losses	(1,950)	(1,950)	(795)
	304,380	306,763	156,953

Notes to the Financial Statements

(continued)

(e) Analysis of loans by currency structure

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Loans in LVL	77,686	78,591	54,597
Loans in USD	107,341	107,255	67,290
Loans in EUR	121,303	122,867	35,861
	306,330	308,713	157,748
Less: provisions for loan impairment losses	(1,950)	(1,950)	(795)
	304,380	306,763	156,953

Loan portfolio include loans secured by the Republic of Latvia Government guarantees of Ls 4,196 thousand and loans secured by guarantees issued by Government of Zone A countries of Ls 3,831 thousand.

Notes to the Financial Statements

(continued)

(f) Analysis of loans by countries

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Latvia	289,290	291,673	152,736
Denmark	16	16	11
France	24	24	26
Germany	302	302	347
Estonia	7,822	7,822	4,515
Israel	9	9	-
Lithuania	4,652	4,652	-
Poland	3,831	3,831	-
Russia	46	46	15
United Kingdom	92	92	-
USA	98	98	71
United States Minor outlying islands	23	23	-
Sweden	26	26	27
Switzerland	99	99	-
	306,330	308,713	157,748
Less: provisions for loan impairment losses	(1,950)	(1,950)	(795)
	304,380	306,763	156,953

Notes to the Financial Statements

(continued)

(g) Gross investment in finance lease

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Not later than 1 year	7,774	3,039	3,157
1 – 5 years	16,018	4,115	5,632
Later than 5 years	22	-	4
Total gross finance lease receivables	23,814	7,154	8,793

Notes to the Financial Statements

(continued)

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

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Not later than 1 year	1,075	369	470
1 – 5 years	1,195	301	484
Total unearned future interest income	2,270	670	954

(i) Net investment in finance lease

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Not later than one year	6,699	2,670	2,687
Later than one year and not later than five years	14,823	3,814	5,148
Later than five years	22	-	4
Total net investment in finance lease	21,544	6,484	7,839

Notes to the Financial Statements

(continued)

13 INVESTMENT SECURITIES

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Securities available-for-sale			
Latvian government securities	8,342	8,342	487
Latvijas Hipoteku un Zemes Banka Mortgage Bonds	818	818	-
NORD/LB's securities	12,183	12,183	11,948
Total securities available for sale	21,343	21,343	12,435

As at 31 December 2004 the Bank had acquired Norddeutsche Landesbank Girozentrale securities with a face value LVL 5 million, coupon rate 5.8% and maturity 9 November 2006, and securities with a face value EUR 10 million, coupon rate 2.12% based on 3 months Euribor and maturity 24 March 2005.

Notes to the Financial Statements

(continued)

14 SHARES AND OTHER NON-FIXED INCOME SECURITIES

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Participating interests in unrelated private companies	7	7	17

The Bank had participating interests in following institutions:

Institution	Industry	% of total voting rights	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Ezra Bikur Holim	Health services	4.8%	-	-	10
S.W.I.F.T.	Communications		7	7	7
			7	7	17

Notes to the Financial Statements

(continued)

15 INVESTMENT IN SUBSIDIARY

	Share capital LVL'000	Total equity LVL'000	Bank's share %	Investment Value 31/12/04
SIA "NORD/LB Lizings"	200	119	100%	200

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

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.

Notes to the Financial Statements

(continued)

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	Liabilities LVL`000
As at 31 December 2004			
Derivatives held for trading:			
- currency forwards	6,771	19	(23)
- currency and interest rate swaps	118,173	24	
		43	(23)
Derivatives designated as fair value hedges:			
- interest rate swap (see Note 26)	21,090	112	-
Total		155	(23)

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 2003	902	902
Additions	106	62
Disposals and write-offs	(3)	(3)
31 December 2004	1,005	961
<u>Depreciation</u>		
31 December 2003	734	734
Depreciation for the period	120	113
Disposals and write-offs	(3)	(3)
31 December 2004	851	844
Net book value		
31 December 2003	168	168
31 December 2004	154	117

Notes to the Financial Statements

(continued)

18 PROPERTY AND EQUIPMENT

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

	Land and buildings LVL`000	Office equipment LVL`000	Vehicles LVL`000	Leashold 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
Net book value						
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 is as follows:

	Land and buildings LVL`000	Office equipment LVL`000	Vehicles LVL`000	Leashold 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	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

In 2003 the buildings of the Bank were valued by two independent valuation experts SIA "Eiroeksperts" and SIA "Kolonna". Valuation results presented by those two companies were similar (LVL 4,844 thousand and LVL 4,870 thousand respectively) and did not differ substantially from the carrying value of the buildings, therefore adjustment to the carrying value of the buildings was not considered necessary.

Notes to the Financial Statements

(continued)

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

	2004	2003
	Bank	Bank
	LVL`000	LVL`000
Cost	3,178	3,035
Accumulated depreciation	(239)	(215)
Net book value	2,939	2,820

19 DEFERRED EXPENSES AND ACCRUED INCOME

	2004	2004	2003
	Group	Bank	Bank
	LVL`000	LVL`000	LVL`000
Accrued interest receivable	1,900	1,886	498
Deferred expenses	463	439	165
	2,363	2,325	663

Notes to the Financial Statements

(continued)

20 DEFERRED TAX ASSET

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Deferred tax asset at the beginning of the year	300	300	-
Change in deferred tax asset during the year	(300)	(300)	300
Deferred tax at the end of the year	-	-	300

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

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Temporary difference on fixed assets depreciation	538	380	260
Temporary difference on provisions	(57)	(57)	(66)
Tax loss carried forward	(593)	(438)	(941)
Deferred tax asset	(112)	(115)	(747)
Provision for deferred tax asset	112	115	447
Deferred tax asset	-	-	(300)

Notes to the Financial Statements

(continued)

21 OTHER ASSETS

	2004	2004	2003
	Group	Bank	Bank
	LVL`000	LVL`000	LVL`000
Foreclosed properties	484	484	419
Office items	88	88	87
Prepayments	29	29	26
Unsettled spot and forward foreign currency deals (net)	431	431	144
Other	943	591	1,171
	1,975	1,623	1,847

Notes to the Financial Statements

(continued)

22 PROVISIONS FOR IMPAIRMENT LOSSES ON LOANS AND OTHER ASSETS

	Loans LVL`000	Other assets LVL`000	Off-balance sheet liabilities LVL`000	Total LVL`000
31 December 2003	795	-	184	979
Fully provided for and written off	(229)	(10)	(180)	(419)
Charge to income statement:				
- individual loans and assets	614	10	624	
- homogenous groups of loans	900	-	-	900
Released during the year	(130)	-	(4)	(134)
31 December 2004	1,950	-	-	1,950

Increase in provisions in the amount of LVL 1 thousand was charged to income statement in 2004 as a result of foreign exchange rate differences (see note 8).

Income statement item "Impairment on loans and other assets" also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 85 thousand.

Notes to the Financial Statements

(continued)

23 DUE TO OTHER CREDIT INSTITUTIONS

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Demand deposits			
Republic of Latvia credit institutions	15,389	15,389	16,921
OECD credit institutions	356	356	2,777
Non-OECD credit institutions	1,112	1,112	39
Total demand deposits	16,857	16,857	19,737
Term deposits			
Republic of Latvia credit institutions	7,740	7,740	3,787
OECD credit institutions	135,370	135,370	69,118
Non-OECD credit institutions	6,708	6,708	5,410
Total term deposits	149,818	149,818	78,315
	166,675	166,675	98,052

Notes to the Financial Statements

(continued)

24 DUE TO CUSTOMERS

(a) Analysis of deposits by maturity and client type

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Demand deposits			
Private companies	30,034	30,034	21,460
Individuals	22,894	22,894	13,262
State institutions	4,232	4,232	2,707
Funds in transit	2,075	2,075	2,895
Non-residents OECD	1,204	1,204	1,092
Non-residents non-OECD	1,103	1,103	1,337
Total demand deposits	61,542	61,542	42,753
Term deposit accounts			
Private companies	19,617	19,617	27,452
Individuals	33,950	33,950	15,894
Non-residents OECD	3,227	3,227	2,601
Non-residents non-OECD	465	465	332
State institutions	17,095	17,095	4,482
Total term deposits	74,354	74,354	50,761
Total deposits and transit funds	135,896	135,896	93,514

Notes to the Financial Statements

(continued)

25 DEFERRED INCOME AND ACCRUED EXPENSES

	2004 Group LVL'000	2004 Bank LVL'000	2003 Bank LVL'000
Accrued interest payable	2,559	2,559	1,045

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 2004 bonds with a face value of LVL 1,049 thousand (2003: LVL 895 thousand) were sold. 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 2004 bonds with a face value of EUR 30 million (LVL 21 million) were sold. 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 112 thousand and the hedged item (bonds) of LVL 114 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 signed a loan agreement with NORD/LB Hanover (Germany) on 14 January 2004. As at 31 December 2004 the Bank had received a loan of EUR 14 million repayable on 15 January 2014 with interest rate 6 months EURIBOR plus 0.61%.

28 OTHER LIABILITIES

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Dividends payable	14	14	15
Provisions for pending liabilities and payments	37	37	32
Provisions for off-balance sheet liabilities	-	-	184
Other short-term liabilities	1,290	530	499
	1,341	581	730

Notes to the Financial Statements

(continued)

29 SHARE CAPITAL

As at 31 December 2004, registered and 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 2004 are owned by Norddeutsche Landesbank Girozentrale.

30 CURRENT YEAR PROFIT

As described in the Summary of significant accounting policies note (c), the investment in the subsidiary in the Bank's financial statements is accounted for at cost, therefore current year's losses of the subsidiary of LVL 82 thousand have been accounted for only in the Group's financial statements.

Notes to the Financial Statements

(continued)

31 CASH AND CASH EQUIVALENTS

	2004	2004	2003
	Group	Bank	Bank
	LVL'000	LVL'000	LVL'000
Cash	5,246	5,246	4,731
Balances on demand with the Bank of Latvia	4,659	4,659	2,628
Balances due from other credit institutions with the original maturity less than 3 months	21,544	21,544	29,995
Marketable securities with original maturity up to 3 months	-	-	-
Balances on demand due to other credit institutions	(16,857)	(16,857)	(19,737)
	14,592	14,592	17,617

Notes to the Financial Statements

(continued)

32 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:

	2004	2003
	Bank	Bank
	LVL`000	LVL`000
Bonds issued by NORD/LB (Germany)	12,183	11,948
Due from NORD/LB (Germany)	7,057	117
Due from NORD/LB Lietuva	9	6
Balances due from related parties	19,249	12,071
Due to NORD/LB (Germany)	31,426	35,738
Due to NORD/LB Lietuva	7,813	4,358
Due to NORD/LB (Luxemburg)	6,238	6,325
Due to NORD/LB Polska	-	2,696
Subordinated loan NORD/LB (Germany)	9,842	-
Balances due to related parties	55,319	49,117

Notes to the Financial Statements

(continued)

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

	2004	2003
	Bank	Bank
	LVL`000	LVL`000
Interest received for money market deposits/ loans (net)	927	421
Commission received on guarantees and loan monitoring (net)	238	-
Interest received on investment securities	435	455
Interest paid on money market deposits/loans (net)	(1,533)	(1,196)
Interest paid on subordinated loan	(253)	-
Commission paid on guarantees and loan monitoring (net)	(171)	(125)
	(357)	(445)

33 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.

Notes to the Financial Statements

(continued)

34 CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the Group's and the Bank's capital resources 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 Group's and the Bank's international risk based capital adequacy ratio as at 31 December 2004 was 15.2%, which is above the minimum ratio of 8% recommended by the 1988 Basle Committee guidelines. At the same time, in accordance with the Finance and Capital Market Commission's requirements, the Group's and the Bank's risk based capital adequacy ratio was 15.2% and 15.1% 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.

Notes to the Financial Statements

(continued)

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 2004 has been set in the table below:

	2004 Group LVL`000	2004 Bank LVL`000	2003 Bank LVL`000
Equity to be utilised in the capital adequacy ration	52,113	52,150	20,961
Weighted assets and off-balance sheet items	344,573	343,932	185,392
Capital adequacy ration	15.1 %	15.2 %	11.3 %

The Group's and the Bank's calculation of the capital adequacy ratio according to Basle Capital Accord Guidelines as at 31 December 2004 has been set in the table below:

	2004 Group LVL`000	2004 Bank LVL`000	2003 Bank LVL`000
Equity to be utilised in the capital adequacy ration	53,363	53,400	21,479
Weighted assets and off-balance sheet items	351,718	351,041	216,445
Capital adequacy ration	15.2 %	15.2 %	9.9 %

Notes to the Financial Statements

(continued)

35 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

Re-pricing maturity analysis of assets and liabilities of the Group as at 31 December 2004 was as follows:

LVL'000	Within 1 month	1-3 month	3-6 month	6-12 month	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS								
Cash and balances with the Bank of Latvia	4,658	-	-	-	-	-	5,247	9,905
Balances due from other credit institutions	33,594	-	-	-	972	-	-	34,566
Loans and advances to customers	181,998	90,523	18,475	8,915	3,926	543	-	304,380
Investment securities	-	7,029	495	-	5,154	8,665	-	21,343
Shares and other securities	-	-	-	-	7	-	-	7
Derivative financial instruments	43	-	-	112	-	-	-	155
Intangible fixed assets	-	-	-	-	-	-	154	154
Property and equipment	-	-	-	-	-	-	10,164	10,164
Deferred expenses and accrued income	1,564	571	169	59	-	-	-	2,363
Other assets	1,424	7	-	60	-	-	484	1,975
Total assets	223,281	98,130	19,139	9,146	10,059	9,208	16,049	385,012
LIABILITIES								
Balances due to credit institutions	36,725	57,073	69,870	-	3,007	-	-	166,675
Due to customers	86,454	19,419	12,657	7,712	9,653	1	-	135,896
Debt securities in issue	2	-	-	112	22,139	-	-	22,253
Derivative financial instruments	23	-	-	-	-	-	-	23
Deferred income and accrued expenses	975	404	262	110	808	-	-	2,559
Other liabilities	1,341	-	-	-	-	-	-	1,341

Notes to the Financial Statements

(continued)

Subordinated loan	9,842	-	-	-	-	-	-	9,842
Capital and reserves	-	-	-	-	-	-	46,423	46,423
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)	
31 December 2003								
Total assets	132,361	31,185	11,534	6,359	13,331	3,574	19,170	217,514
Total liabilities	91,862	57,570	17,376	7,403	8,451	1	34,851	217,514
Interest sensitivity analysis	40,499	(26,385)	(5,842)	(1,044)	4,880	3,573	(15,681)	
Interest rate swaps								
Receivable	-	16,230	-	-	-	1,213	-	17,443
Payable	-	-	1,213	16,230	-	-	-	17,443
Net interest sensitivity analysis	40,499	(10,155)	(7,055)	(17,274)	4,880	4,786	(15,681)	

Notes to the Financial Statements

(continued)

Re-pricing maturity analysis of assets and liabilities of the Bank as at 31 December 2004 was as follows:

LVL'000	Within 1 month	1-3 month	3-6 month	6-12 month	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS								
Cash and balances with the Bank of Latvia	4,658	-	-	-	-	-	5,247	9,905
Balances due from other credit institutions	33,594	-	-	-	972	-	-	34,566
Loans and advances to customers	181,756	90,657	20,966	8,915	3,926	543	-	306,763
Investment securities	-	7,029	495	-	5,154	8,665	-	21,343
Shares and other securities	-	-	-	-	7	-	-	7
Investment in subsidiary	-	-	-	-	-	-	200	200
Derivative financial instruments	43	-	-	112	-	-	-	155
Intangible fixed assets	-	-	-	-	-	-	117	117
Property and equipment	-	-	-	-	-	-	7,330	7,330
Deferred expenses and accrued income	1,526	571	169	59	-	-	-	2,325
Other assets	1,072	7	-	60	-	-	484	1,623
Total assets	222,649	98,264	21,630	9,146	10,059	9,208	13,378	384,334
LIABILITIES								
Balances due to credit institutions	36,725	57,073	69,870	-	3,007	-	-	166,675
Due to customers	86,454	19,419	12,657	7,712	9,653	1	-	135,896
Debt securities in issue	-	-	-	114	22,139	-	-	22,253
Derivative financial instruments	23	-	-	-	-	-	-	23
Deferred income and accrued expenses	975	404	262	110	808	-	-	2,559
Other liabilities	581	-	-	-	-	-	-	581
Subordinated loan	9,842	-	-	-	-	-	-	9,842

Notes to the Financial Statements

(continued)

Capital and reserves	-	-	-	-	-	-	46,505	46,505
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)	
31 December 2003								
Total assets	132,361	31,185	11,534	6,359	13,331	3,574	19,170	217,514
Total liabilities	91,862	57,570	17,376	7,403	8,451	1	34,851	217,514
Interest sensitivity analysis	40,499	(26,385)	(5,842)	(1,044)	4,880	3,573	(15,681)	
Interest rate swaps								
Receivable	-	16,230	-	-	-	1,213	-	17,443
Payable	-	-	1,213	16,230	-	-	-	17,443
Net interest sensitivity analysis	40,499	(10,155)	(7,055)	(17,274)	4,880	4,786	(15,681)	

Notes to the Financial Statements

(continued)

36 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 2004 was as follows:

	Up to 1 month LVL`000	1 - 3 month LVL`000	3 - 12 month LVL`000	Over 12 month LVL`000	Total LVL`000
ASSETS					
Cash and balances with the Bank of Latvia	9,905	-	-	-	9,905
Balances due from other credit institutions	31,486	-	-	3,080	34,566
Loans and advances to customers	4,539	13,113	51,977	234,751	304,380
Investment securities	-	7,028	495	13,827	21,350
Intangible assets and property and equipment	-	-	-	10,318	10,318
Accrued income and other assets	3,366	271	244	612	4,493
Total assets	49,296	20,412	52,716	262,588	385,012
LIABILITIES					
Balances due to other credit institutions	36,725	16,958	22,066	90,926	166,675
Due to customers	86,454	19,419	20,370	9,653	135,896
Debt securities in issue	-	-	-	22,253	22,253
Accrued expenses and other liabilities	2,043	397	462	1,021	3,923
Subordinated loan	-	-	-	9,842	9,842
Capital and reserves	-	-	-	46,423	46,423
Total liabilities	125,222	36,774	42,898	180,118	385,012
Liquidity risk	(75,926)	(16,362)	9,818	82,470	-

Notes to the Financial Statements

(continued)

31 December 2003

Total assets	<u>46,915</u>	<u>4,022</u>	<u>29,902</u>	<u>136,675</u>	<u>217,514</u>
Total liabilities	<u>98,692</u>	<u>49,268</u>	<u>23,627</u>	<u>45,927</u>	<u>217,514</u>
Liquidity risk	<u>(51,777)</u>	<u>(45,246)</u>	<u>6,275</u>	<u>90,748</u>	<u>-</u>

	<u>31/12/04</u>	<u>31/12/03</u>	<u>normative FCMC</u>
Liquidity ratio	38%	42%	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 2004 was as follows:

	Up to 1 month LVL`000	1 - 3 month LVL`000	3 - 12 month LVL`000	Over 12 month LVL`000	Total LVL`000
ASSETS					
Cash and balances with the Bank of Latvia	9,905	-	-	-	9,905
Balances due from other credit institutions	31,486	-	-	3,080	34,566
Loans and advances to customers	4,230	11,325	50,605	240,603	306,763
Investment securities	-	7,028	495	14,027	21,550
Tangible and intangible assets	-	-	-	7,447	7,447
Accrued income and other assets	3,123	139	229	612	4,103
Total assets	48,744	18,492	51,329	265,769	384,334
LIABILITIES					
Balances due to other credit institutions	36,725	16,958	22,066	90,926	166,675
Due to customers	86,454	19,419	20,370	9,653	135,896
Debt securities in issue	-	-	-	22,253	22,253
Accrued expenses and other liabilities	1,606	377	372	808	3,163
Subordinated loan	-	-	-	9,842	9,842
Capital and reserves	-	-	-	46,505	46,505
Total liabilities	124,785	36,754	42,808	179,987	384,334
Liquidity risk	(76,041)	(18,262)	8,521	85,782	-

Notes to the Financial Statements

(continued)

31 December 2003

Total assets	<u>46,915</u>	<u>4,022</u>	<u>29,902</u>	<u>136,675</u>	<u>217,514</u>
Total liabilities	<u>98,692</u>	<u>49,268</u>	<u>23,627</u>	<u>45,927</u>	<u>217,514</u>
Liquidity risk	<u>(51,777)</u>	<u>(45,246)</u>	<u>6,275</u>	<u>90,748</u>	<u>-</u>

	<u>31/12/04</u>	<u>31/12/03</u>	<u>normative FCMC</u>
Liquidity ratio	38%	42%	30%

Notes to the Financial Statements

(continued)

37 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2004 was as follows:

LVL`000	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances with the Bank of Latvia	8,090	824	636	355	9,905
Balances due from other credit institutions	21,503	472	10,208	2,383	34,566
Loans and advances to customers	76,048	107,348	120,984	-	304,380
Investment securities	14,314	-	7,029	-	21,343
Shares and other non-fixed income securities	-	-	7	-	7
Derivative financial instruments	155	-	-	-	155
Intangible fixed assets	154	-	-	-	154
Property and equipment	10,148	-	16	-	10,164
Deferred expenses and accrued income	869	524	970	-	2,363
Other assets	1,721	45	209	-	1,975
Total assets	133,002	109,213	140,059	2,738	385,012
LIABILITIES					
Balances due to other credit institutions	8,533	45,492	106,406	6,244	166,675
Due to customers	72,849	18,501	44,086	460	135,896
Debt securities in issue	1,049	-	21,204	-	22,253
Derivative financial instruments	23	-	-	-	23
Deferred income and accrued expenses	966	369	1,224	-	2,559
Other liabilities	458	362	509	12	1,341
Subordinated loan	-	-	9,842	-	9,842

Notes to the Financial Statements

(continued)

Capital and reserves	46,423	-	-	-	46,423
Total liabilities	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)	-
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	2,626	779	2,390	3	5,799
Forward foreign exchange receivable	2,995	7,998	47,433	5,480	63,905
Total foreign exchange receivable	5,621	8,777	49,823	5,483	69,704
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange payable	3,002	1,376	1,286	155	5,819
Forward foreign exchange payable	2,838	51,748	7,524	1,344	63,454
Total foreign exchange payable	5,840	53,124	8,810	1,499	69,273
<i>Net long/(short) position on foreign exchange</i>	(219)	(44,347)	41,014	3,983	431
Net long/(short) position	2,482	142	(2,198)	5	431
31 December 2003					
Total assets	95,860	73,227	44,965	3,462	217,514
Total liabilities and shareholders' equity	96,934	66,301	47,254	7,025	217,514
<i>Net long/(short) position on balance sheet</i>	(1,074)	6,926	(2,289)	(3,563)	-
<i>Net long/(short) position on foreign exchange</i>	1,099	(7,321)	2,171	4,195	144
Net long/(short) position	25	(395)	(118)	632	144

Notes to the Financial Statements

(continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2004 was as follows:

LVL`000	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances with the Bank of Latvia	8,090	824	636	355	9,905
Balances due from other credit institutions	21,503	472	10,208	2,383	34,566
Loans and advances to customers	76,893	107,216	122,654	-	306,763
Investment securities	14,314	-	7,029	-	21,343
Shares and other non-fixed income securities	-	-	7	-	7
Investment in subsidiary	200	-	-	-	200
Derivative financial instruments	155	-	-	-	155
Intangible fixed assets	117	-	-	-	117
Property and equipment	7,314	-	16	-	7,330
Deferred expenses and accrued income	850	522	953	-	2,325
Other assets	1,522	30	71	-	1,623
Total assets	130,958	109,064	141,574	2,738	384,334
LIABILITIES					
Balances due to other credit institutions	8,533	45,492	106,406	6,244	166,675
Due to customers	72,849	18,501	44,086	460	135,896
Debt securities in issue	1,049	-	21,204	-	22,253
Derivative financial instruments	23	-	-	-	23
Deferred income and accrued expenses	966	369	1,224	-	2,559
Other liabilities	236	326	7	12	581

Notes to the Financial Statements

(continued)

Subordinated loan	-	-	9,842	-	9,842
Capital and reserves	46,505	-	-	-	46,505
Total liabilities	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)	-
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	2,626	779	2,390	3	5,799
Forward foreign exchange receivable	2,995	7,998	47,433	5,480	63,905
Total foreign exchange receivable	5,621	8,777	49,823	5,483	69,704
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange payable	3,002	1,376	1,286	155	5,819
Forward foreign exchange payable	2,838	51,748	7,524	1,344	63,454
Total foreign exchange payable	5,840	53,124	8,810	1,499	69,273
<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
31 December 2003					
Total assets	95,860	73,227	44,965	3,462	217,514
Total liabilities and shareholders' equity	96,934	66,301	47,254	7,025	217,514
<i>Net long/(short) position on balance sheet</i>	(1,074)	6,926	(2,289)	(3,563)	-
<i>Net long/(short) position on foreign exchange</i>	1,099	(7,321)	2,171	4,195	144
Net long/(short) position	25	(395)	(118)	632	144

As at 31 December 2003 and 2004, 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 for the year ended 31 December 2004

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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 Smilsu street 6
Riga-50, LV-1803
Latvia

Financial year 1 January - 31 December 2004

Name and address of the auditor and responsible certified auditor PricewaterhouseCoopers SIA
Audit company licence No. 5
Kr. Valdemara 19
Riga LV-1010
Latvia

Responsible certified auditor:
Juris Lapse
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

Riga, 9 March 2005

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 - 31 December 2004	Controlling entity
NORD/LB, Luxembourg	1 January - 31 December 2004	A company grouped with the controlling entity NORD/LB, Hannover
MHB, Frankfurt	1 January - 31 December 2004	A company grouped with the Controlling entity NORD/LB, Hannover
NORD/LB, London	1 January - 31 December 2004	A company grouped with the Controlling entity NORD/LB, Hannover
NORD/LB Lietuva	1 January - 31 December 2004	A company grouped with the Controlling entity NORD/LB, Hannover
NORD/LB Polska	1 January - 31 December 2004	A company grouped with the Controlling entity NORD/LB, Hannover

Transactions and Activities Performed by NORD/LB Latvija JSC in Dependency Circumstances for the year 2004 that Affect the Income Statement for the Reporting Year

	Note	Performance Ls	Counter- performance Ls	Net result Ls
<u>The Bank's transactions</u>				
The Bank's transactions with the controlling entity				
Interest received on deposits	1.1	852	(852)	
Interest received for currency and interest rate swaps	1.2	598 170	(598 170)	
Interest received on investment securities	1.3	434 815	(434 815)	-
Commission received on guarantees and loan monitoring	1.5	70304	(70304)	
Interest paid on money market deposits/loans	1.1	(724 253)	724 253	-
Interest paid on currency and interest rate swaps	1.2	(495 132)	495 132	
Interest paid on subordinated loan	1.4	(253 146)	253 146	
Commission paid on guarantees and loan monitoring	1.5	(171 269)	171 269	-
Total		(539 659)	539 659	-

Transactions and Activities Performed by NORD/LB Latvija JSC in Dependency Circumstances for the year 2004 that Affect the Income Statement for the Reporting Year

(continued)

The Bank's transactions with other group companies

Interest received for money market deposits/loans	2.1	52194	(52194)	-
Interest received for currency and interest rate swaps	2.2	275 190	(275 190)	
Commissions received on guarantees and services	2.3	167 676	(167 676)	
Interest paid on money market deposits/loans, net	2.1	(75428)	75428	-
Interest paid on currency and interest rate swaps	2.2	(237 725)	237 725	

Total

	181 907	(181 907)	
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Total activities

	(357 752)	357 752	-
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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'.

Accounting Policies

(continued)

(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.

(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.

Accounting Policies

(continued)

(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. As at 31 December 2004 the outstanding balance of loans due from the controlling entity amounted to LVL 31,425,964, including vostro account that amounted to LVL 201,889. As at 31 December 2004 the outstanding balance of loans due to the controlling entity amounted to LVL 7,057,913, including nostro account that amounted to LVL 23,814.
- 1.2 In 2004 the Bank utilised currency and interest rate swap deals with the controlling entity. As at 31 December 2004 the Bank had derivative transactions with the controlling entity at the notional amount of LVL 41,730,000.
- 1.3 The Bank holds bonds issued by the controlling entity, the fair value of which as at 31 December 2004 amounted to LVL 12,182,600.
- 1.4 The controlling entity provided the subordinated loan to the Bank. As at 31 December 2004 the outstanding balance of subordinated loan amounted to LVL 9,842,000.
- 1.5 In 2004 the Bank received guarantees for loans granted to customers as well as paid commission to the controlling entity for loans monitoring.

Notes to Transactions and Activities Performed by NORD/LB Latvija JSC in Dependency Circumstances

(continued)

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 2004 the Bank had liabilities to NORD/LB Luxembourg in amount of LVL 6,237,500, to NORD/LB Lietuva in amount of LVL 7,813,070.
- 2.2 In 2004 the Bank entered into currency SWAP and interest rate SWAP transactions with NORD/LB Luxembourg. As at 31 December 2004 the Bank had a currency SWAP with NORD/LB Luxembourg at the notional amount of LVL 10,545,000. Notional amounts of interest rate SWAPs with NORD/LB Luxembourg as at 31 December 2004 amounted to LVL 19,325,400.
- 2.3 In 2004 the Bank received guarantees for loans granted to customers as well as commission for services.