MORTGAGE AND LAND BANK OF LATVIA

Interim Condensed Consolidated and Bank Financial Statements for the 9 months period ended 30 September 2007

CONTENTS

	Page
Management Report	1 - 3
Supervisory Council and the Board of Directors	4
Statement of Responsibility of the Supervisory Council and the Board of Directors	5
Auditors' Report	6
Financial Statements:	
Income Statement	7
Balance Sheet	8
Statement of Changes in Shareholder's Equity	9 - 10
Cash Flow Statement	11
Notes to the Financial Statements	12 - 22

MANAGEMENT REPORT

The nine months of 2007

The International Monetary Fund forecasts the increase of the global economy in the year 2007 will reach 5.2%. The economy of the United States of America (USA) this year is affected by the real estate market crisis, therefore the gross domestic product (GDP) increase is forecasted to 2%. Nevertheless, the decrease of US economy growth is compensated by the rapid development of developing countries, especially that of China (the forecasted GDP – 11,2%), India (9%) and Russia (7%). A steady growth – of 2.6% – is forecasted to economies of Japan and EEA countries. In 2006, the global economy increased by 5.5%. The global economy in the year 2006 increased by 5.5%.

The national economy of Latvia keeps on a rapid development in 2007, secured by the steadily high domestic demand and investment level. Nevertheless, the national economy still experiences risks pertaining to its overheating – steady inflation level, high current account deficit, as well as lack of workforce. Hence, the international credit rating agencies *Fitch Ratings* and *Standard & Poor's* also have indicated to the potential economy overheating and therefore downgraded Latvia's rating for long-term liabilities in foreign currency. Responding to the situation in economy, in March 2007 a stabilisation plan of national economy was accepted; it includes various activities to keep down the consumption growth, including curtailment of lending.

In 9 months of the year 2007, in comparison with the respective period last year, the GDP of Latvia grew by 11.1% (in the year 2006 GDP growth constituted 11.9%). GDP increase in the period was fostered mainly by rise in the volumes of the following sectors: trade, transport and communications, construction, financial mediation, real estate operations and other commercial activities. On the other hand, the low growth of volumes in processing industry (by 1%) can be viewed as a negative trend. In the first half-year of 2007, the economy of Latvia was still the fastest growing economy in the European Union. The Ministry of Finance of the Republic of Latvia forecasts 9.5% GDP increase in 2007.

A record high growth of consumer prices was recorded in Latvia in the year 2007. In comparison with September of the previous year, consumer prices in September 2007 have grown by 11.4% (the average inflation of consumer prices in 2006 – 6.5%). The greatest impact on price rise in nine months of this year had the rise in costs of food products, water supply and dwelling services, tobacco, catering services and fuel. The annual inflation ratio registered in Latvia this year was amongst the highest consumer price rise indicators of the EU member states. The Ministry of Finance of the Republic of Latvia forecasts the average inflation to reach 8.8% in 2007.

Increase of economic activity has contributed to decrease of unemployment level, which, in nine months of 2007, has dropped by 1.4 percent points – to 5.1% of the active population on the labour market.

The external trade volumes of Latvia continue to grow in the year 2007. Within the first eight months of the year, in comparison with the respective period last year, the export increased by 22%, whereas import by 29%; the prevalence of import over export was 97%. The main trade partners of Latvia are EU member states whose share in the total external trade turnover of the country exceeds 75%.

Within the framework of Latvian national economy stabilisation activities, this year's budget is planned with a surplus of 0.4% of GDP.

(continued)

Banking services in Latvia in 2007 are provided by 21 bank and three branches of foreign banks. During nine months of this year, the assets of the banks have increased by 28% reaching 20.4 bln lats, deposits (including the transit funds) – by 15%, the volume of granted loans – by 30%, and the capital and reserves of the banks – by 33%.

Taking into account the macroeconomic development tendencies in Latvia and the necessity to support the Government's attempts in inflation reduction, the Council of the Bank of Latvia resolved to raise the refinancing interest rate by 0.5 percent points two times in 2007 – from 5% to 5.5% (in force as of March 24) and from 5.5% to 6% (in force as of May 18). The European Central Bank raised the refinancing interest rate to 4% in 2007. Whereas the US Federal Reserve system in September cut the dollar base interest rate by 0.5 percent points – from 5.25% to 4.75%.

Due to base interest rate rise for Latvian lats and Euros, and as a result of money market fluctuations, the average interest rates of loans issued by Latvian commercial banks have increased significantly during 2007. The average interest rates for loans issued to individuals (in lats) have increased from 9.9% (January) to 16.4% (September), and to legal entities – from 6.8% to 11.1% within the respective period. The average interest rates for loans issued to individuals (in a foreign currency) have increased from 5.7% (January) to 6.4% (September), and to legal entities – from 5.9% to 7.3% within the respective period

The Mortgage Bank continues its development in 2007, as it is reflected by all major financial indices. During the first 9 months of this year, the Bank's gross assets have increased to 846 million lats or by 22%. The Mortgage Bank ranked eighth among Latvian commercial banks by its asset volume (market share – 4.2%) by the end of September. The profit of the Bank reached 5.13 million lats during the first nine months, that is by 1.8 million lats or 53% more than during the respective period of the previous year

The gross loans' portfolio of the Mortgage Bank increased by 131 million lats during the first nine months of 2007 or by 27%, and reached 622 mln lats at the end of September. The Mortgage Bank ranked seventh among Latvian commercial banks by its loans' portfolio volume with a market share of 4.4%. The Mortgage Bank was the 8th largest bank in Latvia by corporate loan volume (market share – 5%) and 7th by loan volume to private persons (market share – 3.6%). This year Mortgage Bank continued improvement of various loan products, and organised marketing campaigns "Cooperation partner to companies" and „100% friendly loan".

The volume of deposits with the Mortgage Bank has increased by 9 mln lats during the first nine months of 2007 or 4%, and reached 283 mln lats. The Mortgage Bank ranked tenth among Latvian commercial banks by its deposits volume (including the transit funds) (market share – 3.1%) by the end of September. To attract deposits, this year again the Bank organised the annual term deposit campaign „Ābele" ("Apple-tree").

The volume of debt securities issued by the Mortgage Bank increased by 9.5 mln lats during the first nine months of 2007 or 22%, reaching 53.5 mln lats. This year, the Bank did not issue any mortgage bonds and redeemed mortgage bonds for 5 million US dollars and 3 million lats.

Mortgage Bank was the first in the Baltic countries' banking field to issue short-term discount notes – issues of short-term discount notes of 10 million lats and 9 million euros took place in June. The initial offering under the Mortgage Bank short-term discount note issue program passed successfully, attracting investors from all Baltic countries.

2007 was significant to the Mortgage Bank in attracting foreign financial resources. To expand and diversify its investor base, Mortgage bank signed a cooperation agreement with Japanese investors for a Syndicated Club Loan of 3 bln Japanese yens (13 million lats) in June of 2007 (maturity – 5 years). It has been the first time in Latvia that a deal is concluded, where both the Arranger and lenders are from Japan.

In September 2007, Mortgage Bank signed a syndicated loan agreement of 177.5 million euros tfor 3 years. The total of 15 banks from 9 countries take part in this deal. The pool of lenders comprises both the permanent cooperation partners of Mortgage Bank from Western Europe, as well as new ones – from Southern Europe and Asia, to whom Latvia is a new and uncharted market.

In the year 2007, the Bank proceeds with implementation of various development programmes, within their framework support is provided to certain groups of entrepreneurs and population as tasked by the government. Particular attention this year is referred to programmes run by *Altum* – Mortgage Bank's Promotional programmes board: training and consultations programme to beginners in business, financial support to business start-ups, as well as Housing guarantee programme. The purpose of *Altum* endeavours is broadening financial support opportunities to certain groups of entrepreneurs or population according to priorities as set by the government. Mortgage Bank has concluded agreements with several commercial banks of Latvia on cooperation in funding the Small and Medium enterprises. The agreements comprise wider scope of opportunities to business start-ups and rapidly growing enterprises to receive additional funding.

Stability of the Mortgage Bank is characterised by ratings assigned by the credit rating agency *Moody's Investors Service*: long-term foreign currency deposits – *A2*, short-term foreign currency deposits – *P1*, financial strength rating – *D-*, rating of mortgage bonds – *A1*.

This year the Bank supported the conference to entrepreneurs of Latvia "Dare – find out financial opportunities and work!", organised by the association „Līdere" ("Leader Lady"), unifying Latvian women – entrepreneurs and professionals in their field.

Mortgage Bank started to organise meetings in local governments this summer. By involving biggest clients and local media, Bank officials met city mayors in Kuldīga and Rēzekne. Broader discussions were organised in local governments of Valmiera, Liepāja and Daugavpils, inviting all those interested in the matter to open discussions on promotion of small businesses.

Already the fourth year in a row, the Mortgage Bank carried out a wide-scale corporate social responsibility project "Mēs paši" ("We can ourselves"), which meant cleanup and environment improvement works in those cities hosting branches of the Mortgage Bank. As in previous years, the Mortgage Bank's joint-work gatherings were organised during the whole summer, in cooperation with local municipal governments.

Mortgage Bank, in the beginning of 2007, signed cooperation agreements with leaders of regional funds established in Latvia on organisation of Mortgage Bank's project competition. The Bank supported the best projects submitted to the funds' competition, projects that enhance activities of local population in improvement of the surrounding environment.

In 2007 the Mortgage Bank continues modernisation and upgrade the network of its branches and subbranches. A new subbranch got opened in Liepāja at the start of the year. The Bank has 29 branches, one in each district centre, and 10 subbranches in various regions of Latvia providing services to the customers in the whole territory of Latvia.

Gundega Šulca	Inesis Feiferis
Chairman of the Council	Chairman of the Board

SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS

Supervisory Council (at 30 September 2007)

Gundega Šulca	Chairman of the Council
Andris Liepiņš	Deputy Chairman of the Council
Vija Gēme	Member of the Council
Jānis Šnore	Member of the Council
Baiba Bāne	Member of the Council
Baiba Paševica	Member of the Council
Dace Ratniece	Member of the Council
Iveta Strautiņa	Member of the Council

During the reporting period, the following Council members resigned: Ms. Zaiga Liepiņa, Mr. Uldis Apels, Ms. Linda Kaņepe, Mr. Māris Klismets and Ms. Laimdota Straujuma.
Mr. Andris Liepiņš, Mr. Jānis Šnore, Ms. Baiba Bāne, Ms. Baiba Paševica, Ms. Dace Ratniece, Ms. Iveta Strautiņa were appointed as Council members.

Board of Directors (at 30 September 2007)

Inesis Feiferis	Chairman of the Board
Rolands Paņko	Deputy Chairman of the Board
Aija Laicāne	Member of the Board
Jēkabs Krieviņš	Member of the Board
Andris Riekstiņš	Member of the Board

The Council appointed Mr. Andris Riekstiņš as a member of the Board of the Bank during the reporting period.

STATEMENT OF RESPONSIBILITY OF THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS

Riga 14 November 2007

Supervisory Council and the Board of Directors (Management) is responsible for preparing the interim financial statements from the books of prime entry of the Bank and the Group for each financial period that present fairly the state of affairs of the Bank and the Group as at the end of the financial period and the results of its operations and cash flows for that period according to the accounting principles set forth in International Financial Reporting Standards as adopted in European Union.

Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the interim condensed consolidated and bank financial statements on pages 7 to 22 for the period ended 30 September 2007. Management confirms that these financial statements have been prepared on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

Management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities. They are also responsible for managing the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia and the Financial and Capital Market Commission as well as other legislation of the Republic of Latvia.

On behalf of the management,

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

PRICEWATERHOUSECOOPERS

Translation from Latvian original*

Report on Review of Interim Financial Information

To the Board of Directors of JSC Mortgage and Land Bank of Latvia

Introduction
We have reviewed the accompanying consolidated condensed balance sheet of JSC Mortgage and Land Bank of Latvia and its subsidiaries (the „Group") and condensed balance sheet of JSC Mortgage and Land Bank of Latvia (the „Bank") as of 30 September 2007 and the related condensed statements of income, changes in equity and cash flows for the nine-months period then ended set out on pages 7 to 22. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standards 34 "Interim Financial Reporting".

PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Certified auditor
Certificate No. 116

Member of the Board

Riga, Latvia
14 November 2007

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INCOME STATEMENT
(all amounts in thousands of Euro)

	Notes	9 months to 30 September 2007		9 months to 30 September 2006	
		Group	**Bank**	**Group**	**Bank**
Interest income		52,974	50,558	33,021	31,864
Interest expense		(29,646)	(29,535)	(15,918)	(15,891)
Net interest income		**23,328**	**21,023**	**17,103**	**15,973**
Fee and commission income		4,270	4,293	3,719	3,672
Fee and commission expense		(872)	(806)	(633)	(610)
Net fee and commission income		**3,398**	**3,487**	**3,086**	**3,062**
Dividend income		-	711	-	-
Net trading income		2,288	2,244	1,198	1,199
Other operating income		4,701	3,490	6,198	2,294
Staff costs		(10,395)	(9,521)	(7,787)	(7,117)
Administrative expenses		(8,567)	(7,784)	(10,132)	(6,518)
Depreciation and amortisation		(2,560)	(2,416)	(2,386)	(2,289)
Provision for impairment losses	4	(2,775)	(2,426)	(807)	(878)
Profit before income tax		**9,418**	**8,808**	**6,473**	**5,726**
Income tax expense		(1,705)	(1,507)	(1,076)	(945)
Net profit for the period		**7,713**	**7,301**	**5,397**	**4,781**

The notes on pages 12 to 22 are an integral part of these financial statements.

These interim financial statements on pages 7 to 22 have been accepted by the Board of Directors on 6 November 2007 and accepted by the Supervisory Council on 14 November 2007 and are signed by:

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

BALANCE SHEET
(all amounts in thousands of Euro)

	Notes	30/09/07		31/12/06	
Assets		**Group**	**Bank**	**Group**	**Bank**
Cash and balances with Central Bank		89,149	89,149	82,536	82,535
Trading securities	6	1,863	1,863	4,058	4,058
Investment securities – held to maturity	6	5,158	5,158	-	-
Investment securities – available for sale	6	69,927	69,927	71,391	71,391
Due from credit institutions		123,524	123,330	102,476	102,374
Derivative financial instruments		-	-	3	3
Loans to customers	7	894,175	882,939	710,702	696,140
Investment properties		3,206	3,206	3,206	3,206
Investments in subsidiaries and associated undertakings	8	600	1,315	600	603
Intangible fixed assets		2,991	2,876	1,870	1,798
Property and equipment		12,663	11,238	11,574	11,130
Other assets		4,749	2,002	3,910	885
Deferred expenses and accrued income		1,009	880	861	729
Total assets		**1,209,014**	**1,193,883**	**993,187**	**974,852**
Liabilities					
Due to credit institutions	9	597,642	585,610	421,496	406,324
Due to customers	10	402,469	403,342	389,928	390,130
Derivative financial instruments		7	7	28	28
Transit funds		3,926	3,926	4,082	4,082
Issued debt securities	11	73,890	73,890	61,484	61,484
Other liabilities		16,618	15,539	7,342	6,551
Deferred income and accrued expenses		3,779	2,934	2,530	1,887
Current income tax liabilities		351	324	1,133	810
Deferred tax liabilities		1,279	1,266	1,279	1,266
Subordinated liabilities		19,209	19,209	18,927	18,927
Total liabilities		**1,119,170**	**1,106,047**	**908,229**	**891,489**
Shareholder's equity					
Share capital		69,028	69,028	69,028	69,028
Reserve capital		3,591	2,935	3,591	2,935
Revaluation deficit on available for sale investments		(1,710)	(1,710)	(875)	(875)
Retained earnings		18,935	17,583	13,214	12,275
Total shareholder's equity		**89,844**	**87,836**	**84,958**	**83,363**
Total liabilities and shareholder's equity		**1,209,014**	**1,193,883**	**993,187**	**974,852**
Off balance sheet items					
Contingent liabilities		5,112	5,112	16,919	16,919
Financial commitments		69,477	105,951	51,333	57,559

The notes on pages 12 to 22 are an integral part of these financial statements.

These interim financial statements on pages 7 to 22 have been accepted by the Board of Directors on 6 November 2007 and accepted by the Supervisory Council on 14 November 2007 and are signed by:

Gundega Šulca Inesis Feiferis

BALANCE SHEET
(all amounts in thousands of Euro)

Chairman of the Council | Chairman of the Board

CONSOLIDATED STATEMENT OF CHANGES IN THE GROUP'S EQUITY
(all amounts in thousands of Euro)

	Share Capital	Reserve capital	Revaluation reserve on available for sale investments	Retained earnings	Total equity
Balance as at 31 December 2005	**69,028**	**2,935**	**(50)**	**7,136**	**79,049**
Distribution of profit – payment for use of state capital	-	-	-	(1,811)	**(1,811)**
Transfer to reserves	-	94	-	(94)	**-**
Net loss on available for sale investments	-	-	(576)	-	**(576)**
Profit for the 9 months period ended 2006	-	-	-	5,396	**5,396**
Balance as at 30 September 2006	**69,028**	**3,029**	**(626)**	**10,627**	**82,058**
Transfer to reserves	-	562	-	(562)	**-**
Net loss on available for sale investments	-	-	(249)	-	**(249)**
Profit for the 3 months period ended 2006	-	-	-	3,149	**3,149**
Balance as at 31 December 2006	**69,028**	**3,591**	**(875)**	**13,214**	**84,958**
Distribution of profit – payment for use of state capital	-	-	-	(1,992)	**(1,992)**
Transfer to reserves	-	-	-	-	-
Net loss on available for sale investments	**-**	**-**	(835)	-	**(835)**
Profit for the period	**-**	**-**	**-**	7,713	**7,713**
Balance as at 30 September 2007	**69,028**	**3,591**	**(1,710)**	**18,935**	**89,844**

The notes on pages 12 to 12 are an integral part of these financial statements.

STATEMENT OF CHANGES IN THE BANK'S SHAREHOLDER'S EQUITY
(all amounts in thousands of Euro)

	Share Capital	Reserve capital	Revaluation reserve on available for sale investments	Retained earnings	Total equity
Balance as at 31 December 2005	**69,028**	**2,935**	**(50)**	**6,710**	**78,623**
Distribution of profit – payment for use of state capital	-	-	-	(1,811)	**(1,811)**
Net loss on available for sale investments	-	-	(576)	-	**(576)**
Profit for the 9 months period ended 2006	-	-	-	4,781	**4,781**
Balance as at 30 September 2006	**69,028**	**2,935**	**(626)**	**9,680**	**81,017**
Profit for the 3 months period ended 2006				2,595	**2,595**
Net loss on available for sale investments	-	-	(249)	-	**(249)**
Balance as at 31 December 2006	**69,028**	**2,935**	**(875)**	**12,275**	**83,363**
Distribution of profit – payment for use of state capital	-	-	-	(1,992)	**(1,992)**
Net loss on available for sale investments	-	-	(835)	-	**(835)**
Profit for the period	-	-	-	7,301	**7,301**
Balance as at 30 September 2007	**69,028**	**2,935**	**(1,710)**	**17,584**	**87,837**

The notes on pages 12 to 22 are an integral part of these financial statements.

CASH FLOW STATEMENT

(all amounts in thousands of Euro)

	9 months to 30 September 2007		9 months to 30 September 2006	
	Group	**Bank**	**Group**	**Bank**
Cash flows from operating activities				
Profit before taxation	9,418	8,808	6,473	5,726
Depreciation and amortisation	2,560	2,416	2,386	2,289
Increase / (decrease) in provision for impairment losses	1,047	699	(1,255)	(1,184)
(Profit) / loss from foreign exchange revaluation	-	43	(117)	(118)
(Profit) / loss from sale of property and equipment	(1)	(1)	16	16
Increase in deferred income and accrued expenses	1,531	1,329	370	454
(Increase) / decrease in deferred expenses and accrued income	(148)	(152)	(38)	12
(Increase) in other assets	(1,783)	(2,063)	(5,340)	(484)
Increase in other liabilities	9,254	8,966	5,790	4,067
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**21,878**	**20,045**	**8,285**	**10,778**
(Increase) in balances due from credit institutions	(20,909)	(20,909)	(58,205)	(58,205)
Increase in loans to customers	(184,437)	(187,413)	(125,961)	(113,293)
Increase in trading securities	2,223	2,223	1,188	1,188
Increase in balances due to credit institutions	178,401	181,542	111,412	96,381
Increase in balances due to customers	12,541	13,211	87,198	86,899
Decrease in transit funds	(157)	(157)	(165)	(165)
Increase / (decrease) in debt securities issued	12,406	12,406	13,998	13,998
Increase in cash and cash equivalents from operating activities	**21,946**	**20,948**	**37,750**	**37,581**
Corporate income tax paid	(2,486)	(1,992)	(982)	(982)
Cash flows from investing activities				
Increase in investment securities	(3,693)	(3,694)	(10,378)	(10,378)
Purchases of property and equipment	(4,801)	(3,610)	(2,163)	(1,952)
Proceeds from property and equipment disposal	31	10	24	24
Acquisition of investments in associated entities	-	(711)	-	-
Cash and cash equivalents used in investing activities	**(8,463)**	**(8,005)**	**(12,517)**	**(12,306)**
Cash flows from financing activities				
Dividend paid	(1,992)	(1,992)	(1,811)	(1,811)
Cash and cash equivalents used in financing activities	**(1,992)**	**(1,992)**	**(1,811)**	**(1,811)**
Increase in cash and cash equivalents	**9,005**	**8,959**	**22,440**	**22,482**
Cash and cash equivalents at the beginning of the period	172,730	172,626	48,706	48,645
Effect of exchange rates on cash and cash equivalents	-	(44)	117	118
Cash and cash equivalents at the end of the period	**181,735**	**181,541**	**71,263**	**71,245**

The notes on pages 12 to 22 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Mortgage and Land Bank of Latvia was established as a state-owned commercial bank on 19 March 1993 by the Government of Latvia based on the Decree No 140 adopted by the Cabinet of Ministers. The Bank was registered with the Register of Enterprises of the Republic of Latvia on 3 June 1993. According to the Commercial Law the Bank was registered in the Commercial Register on 14 July 2004.

The operations of the Bank are regulated by the law On Credit Institutions and other effective laws of the Republic of Latvia, the Statutes of the Bank, the regulations of the Bank of Latvia and Finance and Capital Market Commission, as well as the decrees and regulations of the Cabinet of Ministers of the Republic of Latvia. The Bank is under the jurisdiction of the Ministry of Finance of the Republic of Latvia that represents the interests of the shareholder on behalf of the Cabinet of Ministers and holds 100% of the Bank's shares.

Ratings assigned to the Bank by the rating agency *Moody's Investors Service*:

Rating type	Rating	Rating approval date	Rating forecast	Previous rating
For long-term foreign currency deposits	**A2**	21.12.2006.	Stable	**A2**
For short-term foreign currency deposits	**P1**	21.12.2006.	Stable	**P1**
The financial strength rating	**D-**	21.12.2006.	Stable	**D-**
The rating of mortgage bonds issued	**A1**	05.03.2007.	Positive	**A1**

The performance ratios of the Bank:

	Accounting period	Previous accounting year
Return on equity (ROE) (%)	12.67%	9.56%
Return on assets (ROA) (%)	1.00%	0.93%

These interim financial statements on pages 7 to 22 have been accepted by the Board of Directors on 6 November 2007 and accepted by the Supervisory Council on 14 November 2007.

2 ACCOUNTING POLICIES

These interim condensed consolidated and bank financial statements are prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006.

These interim financial statements should be read in conjunction with the 2006 annual financial statements.

The accompanying financial statements are reported in thousands of lats, unless otherwise stated.

3 RISK MANAGEMENT

The Group and the Bank manages all the major risks affecting the operation of the Group and the Bank in accordance with the Risk Management Policy approved by the Council of the Bank. The Group and the Bank works out a separate risk management policy for each major risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 RISK MANAGEMENT (continued)

The Group and the Bank abides by the following principles in its risk management:

- while assuming the risks the Group and the Bank shall be capable of implementing the aims and assignments defined in its development strategy in a long run;
- the Group and the Bank shall operate by maintaining an optimum balance between profitability and safeguarding against the risks;
- risk assessment and management shall be an integral component of the every-day functions of the Group and the Bank;
- in accordance with their authority and competence the employees of the Group and the Bank shall know a customer and understand fully the nature of each transaction (operation) to be able to identify and assess the risks associated with the transaction (operation) and find the best solution both for the customer and the Group or the Bank;
- the Group and the Bank shall assess the probable losses that it might incur by assuming the risks and avoid extraordinary losses in its operation;
- the Group and the Bank shall identify and assess the probable risks before launching of new products or services or entering new markets;
- where necessary, the Group and the Bank shall reduce the risk limits, sell the assets subject to the risk or even leave the respective markets should these be assessed as excessively risky.

To manage the risks affecting its operation the Group and the Bank applies various methods and measures, including the risk limits used to reduce or avoid the probable losses, decision- taking and transaction (operation) authorisations, establishment of provisions for covering of losses of certain types of risks as well as maintenance of appropriate control procedures.

Credit Risk

The Group and the Bank is subject to the credit risk. The credit risk is the risk of the customer or co-operation partner not being able to or refusing to meet its liabilities towards the Group or the Bank in full amount and due time. The Group and the Bank controls the credit risk at the level of customer, group of related customers, branches of the national economy and countries according to the risk limits set at the Group and the Bank.

The Credit Policy of the Bank describes and defines the principles for the management of the credit risk and it relates to all activities of the Group and the Bank involving credit risk – lending, financial market transactions (operations), intermediary activities on behalf of the clients and issue of guarantees to third parties. The Group and the Bank monitors the credit risk by assessing the creditworthiness and adequacy of collateral of the customer or co-operation partner on a regular basis.

The Loan Department and Treasury Department perform daily management of the credit risk in accordance with their functions. The Credit Committee of the Head Office, Regional and Branch Credit Committees pass the decisions about assumption of the credit risk within the framework of their limits. The Risk Management Committee is responsible for the assessment and management the portfolio's total credit risk, including concentration risk.

Liquidity Risk

The liquidity risk relates to the ability of the Group and the Bank to meet the legally valid liabilities towards its customers and other creditors in due time and secure that the increase of the anticipated liabilities bear reasonable costs. The Liquidity Policy of the Bank stipulates the principles for management of liquidity risk. The Bank shall ensure that the liquid assets are not less than 30% of its short-term liabilities at all times. The Assets and Liabilities Management Committee of the Bank stipulates the guidelines for liquidity risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 RISK MANAGEMENT (continued)

Foreign Currency Risk
The foreign currency risk occurs due to the differences between the asset and liability positions of foreign currencies that, as a result of the fluctuations of the exchange rates, affects the cash flow and financial results of the Group and the Bank. The Currency Risk Management Policy of the Bank stipulates the principles for the management of the foreign currency risk.
The Group and the Bank controls the foreign currency risk by imposing limits on the open currency positions for each currency and all currencies together consolidating in lats and by complying with the open currency position limits established in the law On Credit Institutions.

Interest Rate Risk
The interest rate risk is related to the influence of the fluctuations of the market rates on the interest income and expenses of the Group and the Bank. To assess the interest rate risk the Bank analyses the maturity structure of the assets and liabilities sensitive to the changes in interest rates and susceptibility of the maturity structure to the potential fluctuations of the interest rates on a regular basis.
The Assets and Liabilities Management Committee monitors the interest rate risk, whereas the Treasury Department is responsible for the management of the interest rate risk.

Operational Risk
The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group and the Bank, for example human mistake or fraud, disturbances in the operation of the information systems, insufficient control procedures or their ignorance. The Internal Control System provides for management and control of the operational risk in the Group and the Bank. The structural units of the Group and the Bank are responsible for the management of the operational risk in the daily operations, but the Risk Management Committee monitor the operational risk.

The Bank also manages other risks defined by the Risk Management Policy.

The Bank has implemented Business continuity plan that includes guidelines on actions to be taken by the Bank, its structural units and employees at occurrence of risks that can have substantial negative effect on the Bank's operations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 PROVISION FOR IMPAIRMENT LOSSES

	9 months to 30 September 2007		9 months to 30 September 2006	
	Group	**Bank**	**Group**	**Bank**
Provision expense:				
- provisions for loans	2,173	1,928	1,312	1,312
- provisions for other assets	159	159	24	24
- provisions for investments in subsidiaries and associated entities	-	-	-	50
- provisions for off balance sheet liabilities	4	4	34	34
- provisions for accrued interest income receivable	264	264	124	124
	2,600	**2,355**	**1,494**	**1,544**
Release of provisions:				
- provisions for loans	(470)	(470)	(713)	(713)
- provisions for other assets	(68)	(68)	(25)	(25)
- provisions for off balance sheet liabilities	(43)	(43)	-	-
- provisions for accrued interest income receivable	(69)	(69)	(189)	(189)
	(650)	**(650)**	**(927)**	**(927)**
Total provision for impairment losses - expense	**1,950**	**1,705**	**567**	**617**

5 INCOME TAX EXPENSE

The current and deferred income tax charge for the nine months period ended 30 September 2007 has been calculated based on the estimated annual effective income tax rate which is then applied against the actual profit for the nine months period. The annual effective income tax rate is based on the forecasted results for the whole year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 TRADING AND INVESTMENT SECURITIES

	30/09/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Trading securities				
Latvian Treasury bills and government bonds	-	-	379	379
Non-OECD government bonds	110	110	1,238	1,238
OECD government bonds	79	79	-	-
Latvian corporate bonds	174	174	95	95
OECD corporate bonds	103	103	721	721
Non-OECD corporate bonds	703	703	274	274
Equity shares in Latvian corporate entities	102	102	127	127
Equity shares in non-OECD corporate entities	38	38	18	18
Total trading securities	**1,309**	**1,309**	**2,852**	**2,852**
Securities held to maturity				
Non-OECD corporate bonds	35	35	-	-
Latvian corporate bonds	3,590	3,590	-	-
Total securities held to maturity	**3,625**	**3,625**	**-**	**-**
Securities available-for-sale				
Latvian Treasury bills and government bonds	13,603	13,603	13,362	13,362
OECD government bonds	2,057	2,057	2,207	2,207
Non-OECD government bonds	7,909	7,909	6,682	6,682
OECD corporate bonds	726	726	-	-
Non-OECD corporate bonds	13,282	13,282	14,605	14,605
Latvian corporate bonds	11,568	11,568	13,318	13,318
Total securities available-for-sale	**49,145**	**49,145**	**50,174**	**50,174**
Total trading and investment securities	**54,079**	**54,079**	**53,026**	**53,026**

The average yield on investment securities as at 30 September 2007 was 6.5% (6.1 % at 31 December 2006).

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 LOANS TO CUSTOMERS

a) Granted loans by type of borrower	**30/09/07**		**31/12/06**	
	Group	**Bank**	**Group**	**Bank**
Local government	2,016	1,626	957	755
State owned companies	717	717	362	362
Financial institutions	515	79,007	349	46,803
Private companies	400,620	325,700	304,519	255,098
Individuals	219,771	209,520	190,180	183,382
Management / staff	6,085	4,974	4,516	4,279
Public and religious institutions	673	662	712	699
	630,397	**622,206**	**501,595**	**491,378**
Accrued interest on loans	2,309	2,358	1,488	1,471
Provisions for loan impairment losses	(4,276)	(4,031)	(3,599)	(3,599)
Total loans	**628,430**	**620,533**	**499,484**	**489,250**

(b) Analysis of movement in provisions for loan impairment losses	**30/09/07**		**31/12/06**	
	Group	**Bank**	**Group**	**Bank**
At the beginning of the period	3,599	3,599	4,362	4,362
Increase of provisions	2,437	2,192	2,048	2,048
Release from provisions	(539)	(539)	(986)	(986)
Adjustment (foreign exchange fluctuation)	(27)	(27)	(76)	(76)
Write-off of loans	(1,194)	(1,194)	(1,749)	(1,749)
At the end of the period	**4,276**	**4,031**	**3,599**	**3,599**

(c) Loans and advances to customers by interest accrual	**30/09/07**		**31/12/06**	
	Group	**Bank**	**Group**	**Bank**
Loans where interest or principal is not overdue or where interest and principal is overdue for less than 90 days	625,292	617,275	498,988	488,893
Loans where interest or principal is more than 90 days overdue	7,414	7,289	4,095	3,956
Total gross loans	**632,706**	**624,564**	**503,083**	**492,849**
Provisions for loan impairment loss	(4,276)	(4,031)	(3,599)	(3,599)
Total net loans to customers	**628,430**	**620,533**	**499,484**	**489,250**

The average interest rate for the Bank's loan portfolio as at 30 September 2007 was 7.3% per annum (6.4 % at 31 December 2006).

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES

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

	Share capital	Total equity	Bank's share (%)	Investment value 30/09/07	Investment value 31/12/06
SIA "Hipolīzings"	300	1,501	100%	300	300
SIA "Hipotēku bankas nekustamā īpašuma aģentūra"	50	572	100%	50	50
SIA „Risku investīciju sabiedrība"	500	500	100%	500	-
KS „Mazo un vidējo komersantu atbalsta fonds"	156	150	47.62%	74	74
Total				**924**	**424**

SIA "Risku investīciju sabiedrība" was registered in the Enterprise Register of the Republic of Latvia on 4 September 2007. The primary business of the Company is risk investments in the equities of companies.

9 DUE TO CREDIT INSTITUTIONS

	30/09/07		31/12/06	
	Group	Bank	Group	Bank
Due to credit institutions registered in OECD area	412,596	404,140	290,545	279,882
Due to credit institutions registered in Latvia and other financial institutions	7,429	7,429	5,684	5,684
	420,025	**411,569**	**296,229**	**285,566**

	30/09/07		31/12/06	
	Group	Bank	Group	Bank
On demand	241	241	116	116
Term balances	419,784	411,328	296,113	285,450
	420,025	**411,569**	**296,229**	**285,566**

The average interest rate for due to credit institutions as at 30 September 2007 was 4.8% (at 31 December 2006: 3.8%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 DUE TO CUSTOMERS

	30/09/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Local government	8,564	8,564	13,023	13,023
State owned companies	5,610	5,610	11,243	11,243
Financial institutions	23,735	24,262	22,652	22,784
Private companies	36,504	36,590	43,388	43,398
Individuals	202,830	202,830	179,117	179,117
Public and religious organisations	2,636	2,636	2,405	2,405
	279,879	**280,492**	**271,828**	**271,970**
Accrued interest	2,978	2,978	2,215	2,215
Total due to customers	**282,857**	**283,470**	**274,043**	**274,185**

	30/09/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
On demand	82,867	83,480	81,640	81,782
Term balances	199,990	199,990	192,403	192,403
Total due to customers	**282,857**	**283,470**	**274,043**	**274,185**

The average interest rate for demand deposits at 30 September 2007 was 0.5% (0.6% at 31 December 2006), for term deposits – 4.9% (4.5% at 31 December 2006).

11 ISSUED DEBT SECURITIES

	30/09/07	31/12/06
	Bank	**Bank**
Mortgage bonds	37,029	43,211
Other debt securities	14,901	-
Total	**51,930**	**43,211**

The purpose of mortgage bonds issuing was to attract financial resources for refinancing of the long-term mortgage loans. The purpose of debt securities issuing was to attract financial resources for financing general Bank activities.

All mortgage bonds issued by the Bank are assigned A1 rating by Moody's Investors Service. All issued debt securities are quoted on the Official List of the Riga Stock Exchange.

During the first nine months of 2007, the Bank issued P01AO and P01CB series debt securities for total amount of LVL 10,000 thousand and EUR 9,047 thousand, but redeemed LVL 3,000 thousand of AG and USD 5,000 thousand BB series mortgage bonds.

The average annual interest rate of the issued securities was 5.9% (as at 31 December 2006: 5.2%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 ISSUED DEBT SECURITIES (continued)

Statement on Mortgage bond coverage as at 30 September 2007

(a) Issued mortgage bonds

ISIN	Security class	Number of mortgage bonds	Face value	Registered volume	Coupon rate, %	Maturity date	Outstanding volume, LVL	Book value LVL
LV0000800118	AI	20,000	100 LVL	2,000,000	7.0%	15.08.2008.	1,048,200	1,073,663
LV0000800167	AJ	30,000	100 LVL	3,000,000	6.5%*	15.08.2008.	2,995,000	3,019,876
LV0000800183	AK	30,000	100 LVL	3,000,000	6.5%*	15.08.2009.	2,910,600	2,934,790
LV0000800266	AN	30,000	100 LVL	3,000,000	8.125%*	15.08.2010.	3,000,000	3,035,851
LV0000800100	AH	20,000	100 LVL	2,000,000	7.5%	15.08.2011.	1,128,200	1,136,232
LV0000800217	BA	100,000	100 USD	10,000,000	6.125%**	15.08.2011.	2,982,000	3,005,338
LV0000800340	CA	200,000	100 EUR	20,000,000	4.719***	15.02.2012.	14,052,285	14,137,013
LV0000800142	AL	50,000	100 LVL	5,000,000	6.0%	15.08.2012.	4,904,200	4,933,764
LV0000800159	AM	70,000	100 LVL	7,000,000	5.25%	15.08.2013.	3,745,000	3,752,706
						Kopā	**36,765,485**	**37,029,233**

* floating coupon rate (6 month RIGIBOR plus 0.5%) that is revised twice every year on 15 February and 15 August
** floating coupon rate (6 month LIBOR plus 0.8%) that is revised twice every year on 15 February and 15 August
***floating coupon rate (6 month EURIBOR plus 0.29%) that is revised twice every year on 15 February and 15 August

(b) Structure of Mortgage bond coverage

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 30 September 2007 amounted LVL 135,888 thousand (as at 31 December 2006: LVL 115,083 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans (ordinary cover) in the amount of LVL 132,173 thousand (as at 31 December 2006: LVL 113,986 thousand) and substitute cover amounting to LVL 3,715 thousand (as at 31 December 2006: LVL 1,097 thousand).

As at 30 September 2007, a ratio of substitute cover against amount of mortgage bonds in circulation (maximum statutory allowed – 20%) was 10.0% (as at 31 December 2006: 2.5%), while the amount of assets included in the Mortgage Bond Cover Register exceeds the amount of mortgage bonds in circulation by 75.3% (as at 31 December 2006: 63.2%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 ISSUED DEBT SECURITIES (continued)

(c) Sufficiency Calculation of Cover of Mortgage Bonds in Circulation

M-Bonds Redemption and Coupon Payment Dates	Mortgage Bond Cover Sufficiency on the last Payment Date*	Mortgage Payments receivable		Payments of Mortgage Bonds in Circulation		Substitute Cover	Mortgage Bond Cover Sufficiency
		Principal Payments	Interest Payments	Redemption Payments	Interest Payments		(1+2+3-4-5+6)
A	1	2	3	4	5	6	7
15.02.2008	0	2,429	3,461	-	(1,071)	-	(4,819)
15.08.2008	2,429	4,405	4,618	(4,050)	(1,071)	-	(6,331)
15.02.2009	2,784	9,092	4,345	-	(937)	-	(15,284)
15.08.2009	11,876	6,195	4,118	(3,000)	(937)	-	(18,252)
15.02.2010	15,071	6,375	3,844	-	(839)	-	(24,451)
15.08.2010	21,446	3,811	3,655	(3,000)	(839)	-	(25,073)
15.02.2011	22,257	3,756	3,509	-	(718)	-	(28,804)
15.08.2011	26,013	4,627	3,346	(4,132)	(718)	-	(29,136)
15.02.2012	26,508	3,474	3,191	(14,056)	(583)	-	(18,534)
15.08.2012	15,926	3,578	3,054	(5,000)	(251)	-	(17,307)
15.02.2013	14,504	3,723	2,908	-	(101)	-	(21,034)
15.08.2013	18,227	5,716	2,742	(3,862)	(101)	-	(22,722)
15.02.2014	20,081	4,203	2,543	-	-	-	(26,827)
15.08.2014	24,284	51,530	17,212	-	-	-	(93,026)
15.02.2015	75,814	19,259	8,626	-	-	-	(103,699)
Total	**-**	**132,173**	**71,172**	**(37,100)**	**(8,166)**	**-**	**-**

* mortgage Bond Cover sufficiency on the last Payment Date is calculated: figures showed in Column 7 – (Column 3 – Column 5) on the last Payment Date

(d) Analysis of mortgage loans included in Mortgage bond coverage by type of real estate

	30/09/07 Bank	**31/12/06 Bank**
Residential mortgage loans	78,268	65,182
Commercial mortgage loans	53,905	48,804
Total	**132,173**	**113,986**

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 CASH AND CASH EQUIVALENTS

The following balances represent cash and cash equivalents in the cash flow statement:

	30/09/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Cash	6,272	6,272	5,678	5,677
Placements with the Bank of Latvia	56,382	56,382	52,329	52,329
Placements with other credit institutions	18,269	18,133	10,751	10,679
Placements with other credit institutions with original maturity up to 3 months	47,344	47,344	54,765	54,765
Placements from other credit institutions with original maturity up to 3 months	(543)	(543)	(2,128)	(2,128)
	127,724	**127,588**	**121,395**	**121,322**

13 CAPITAL ADEQUACY CALCULATION

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 international risk based capital adequacy ratio as at 30 September 2007 was for the Group 10.0% and for the Bank 9.9% (as at 31 December 2006: 13.3% and 13.4%), which is above the minimum ratio of 8% recommended by the 1988 Basle Committee guideline. At the same time, in accordance with the Financial and Capital Market Commissions requirements, risk based capital adequacy ratio was for the Group 9.9% and for the Bank 9.7% (as at 31 December 2006: 12.5% and 12.6%). The Finance and Capital Market Commissions, the bank regulator for the country, requires Latvian bank to maintain a capital adequacy ratio based on regulatory returns prepared under the Finance and Capital Market Commissions 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.

These ratios have been calculated excluding the Group's and the Bank's net profit for the nine months period ended 30 September 2007.

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