

**State-owned Joint Stock Company  
“Mortgage and Land Bank of Latvia”**

**INITIAL OFFERING PROGRAM**

**BASE PROSPECTUS**

**OF MORTGAGE BONDS**

**(with Complements)**

Amount of the offering  
program

LVL 150,000,000 (One hundred fifty  
million Latvian lats)

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2. Profit and loss statements for nine months of 2007 and nine months of 2006 of the State-owned Joint Stock Company "Mortgage and Land Bank of Latvia"

## **1. Terms and abbreviations used and their explanation**

**Business day** – a day (except Saturday, Sunday and official National holidays), when banks in Latvia are open for transactions.

**Issuer or Mortgage Bank** – State-owned Joint Stock Company “Mortgage and Land Bank of Latvia”

**EUR** – Euro (the shared currency of European Monetary Union member countries)

**EURIBOR** – Europe interbank borrowing rate

**Fixed-rate auction (non-competitive auction)** (hereinafter – **Non-competitive auction**) – initial placement method of bonds, where securities are auctioned at a predefined security profit rate

**Financial reports** – Audited annual reports for years 2005 and 2006, as well as audited financial reports as on 30 September of 2006 and 2007

**FCMC** – Financial and Capital Market Commission

**Final terms of the offering** – terms of each separate offering of Mortgage bonds under this issue program

**Base prospectus of the Mortgage Bank’s initial Mortgage bonds offering program** (hereinafter – **Base prospectus**) – prospectus that contains information of the Mortgage Bank and the Mortgage bonds to be publicly offered under the Program, and containing no information by the Mortgage Bank as to the final terms of the offer

**Investor** – private or legal entity, who has expressed its wish or is going to purchase Mortgage bonds according to the procedure set in the Base prospectus and the Final Terms of the offer

**Bond or Mortgage bond** – debt security, issued by the Mortgage bank in accordance with the Latvian Law on Mortgage Bonds and other legal acts of Latvia

**Bearer of bonds** – private or legal entity, bearing one or more bonds at its disposal and possessing claim rights in respect to the issuer by the legislation of Latvia

**Account holder** – credit institution or investment brokerage company, that have obtained licenses for investment services and complementary services with the FCMC.

**Coupon** – interest payment on mortgage bonds

**LCD** – Joint Stock Company “Central Depository of Latvia”

**LIBOR** – London interbank borrowing rate

**LVL** – Latvian lats

**Legal acts of Latvia Republic** – all legal and regulatory acts including the FCMC regulatory acts, as well as RSE and LCD regulatory acts that are in force in Latvia

**LR or Latvia** – the Republic of Latvia

**Face value** – face value of a Bond;

**OECD** – Organization of Economic Co-operation and Development

**Debt Securities List** – RSE Baltic debt securities list, where securities are included on the strictest requirements to issuers and securities

**Final terms of the offering** – information pertaining to the Mortgage Bank and bonds, in combination with the information provided in the Base prospectus, it is requisite to investors to base their decision on investing into the bonds, it shall be published on each public offering under the Program

**Offering program** (hereinafter – **Program**) – set of activities for a continuous or recurring issue of securities of similar or equal category within a definite time frame

Interest calculation period – time span between two Coupon payment dates, which shall be set in the Final terms of the offer for each issue

**RSE** – Joint Stock Company „Riga Stock Exchange”

**Initial public offering** (hereinafter – **Public offering**) – offering made by Mortgage Bank to obtain Bonds issued under this Program, as well as publication of any information to any media on ways to obtain them, if such an offering is made for the first time

**Series** – a single issue of Bonds issued under this Program

**USD** – USA dollar (the official currency of the United States of America)

## **2. Final terms**

The Mortgage Bank shall conduct one or several issues of Bonds series under this Program. Prior to any of issues, the Mortgage Bank shall publish Final terms of the respective issue that shall contain the following information:

- redemption date;
- volume of issue;
- issue currency;
- face value of one mortgage bond
- type of Coupon rate (fixed or floating)
- the size of the Coupon rate in case of fixed Coupon rate or base rate and risk premium in case of a floating rate;
- Coupon disbursement dates;
- accrued interest calculation method;
- rights of the Bank to redeem the issue prior to its maturity (*call option*) and rights of the investors to demand the Issuer to disburse the principal and accrued interest prior to maturity (*put option*);
- Terms and conditions of the initial placement of Mortgage bonds (terms, price, accrued interest to the settlement date and other conditions);
- consolidated data of the cover register as at the moment of producing the Final terms of the offer;
- other conditions not contradicting the Base prospectus and legal enactments.

The Mortgage Bank, as to build a uniform Series, shall have the rights to recompose the Final terms of the offering and issue extra Mortgage bonds on the same conditions as any of the Mortgage bond Series issued earlier under this Program.

## **3. Publishing methods of the final terms**

The Final terms to the bonds issues shall be published on the Mortgage Bank's homepage on the internet [www.hipo.lv](http://www.hipo.lv) 4 (four) business days prior to opening of the public offering.

## **4. Description of the mortgage bond issue program**

The Mortgage Bank shall conduct one or several issues of Mortgage bonds series under this Program. Conditions of the Issue are regulated by the Law on the Financial Instruments Market and the Base prospectus. Purpose for this securities issue is attraction of funds to the Mortgage Bank for its operating activities and to improve the maturity structure of assets and liabilities.

Validity term of the Base prospectus is 12 months from the publishing date, after it is registered with the FCMC.

## 5. Persons responsible for information provided in the base prospectus

### 5.1. Statement by Persons Responsible for Prospectus

Herewith we, Chairperson of the Board Inesis Feiferis, member of the Board and First Deputy Chairperson of the Board Rolands Paņko, member of the Board Jēkabs Krieviņš, member of the Board Andris Riekstiņš of the JSC “Mortgage and Land Bank of Latvia”, confirm that, granting due attention to this cause, and to the best of our knowledge, the information provided in the Base Prospectus is accurate and based on facts, and there are no omissions that might affect the meaning of the information provided in the Prospectus.

### 5.2. Details of Persons who are Responsible for Information Provided in Base Prospectus

Name, surname	Personal ID code	Position	Signature
<b>Inesis Feiferis</b>	140849- 10148	Chairman of the Board	<hr/>
<b>Rolands Paņko</b>	271165- 10505	Member of the Board First Deputy Chairperson of the Board	<hr/>
<b>Jēkabs Krieviņš</b>	310369- 10041	Member of the Board	<hr/>
<b>Andris Riekstiņš</b>	160160- 12978	Member of the Board	<hr/>

## 6. Abstract

### Caution

- This abstract is to be viewed as the introductory part of the Base Prospectus.
- Any investor's decision on investment into Mortgage bonds issued under this Program should be based on analysis of the information included in the Base Prospectus, its amendments and the Final terms of the offer in their entirety.
- Should there be any legal action brought with regard to information in this Base prospectus and its amendments, the investor initiating litigation, have to cover translation costs of the Base prospectus and its amendments prior to legal proceedings in accordance to legal acts of the respective partnership country.
- The persons responsible for information included in the abstract of the Base prospectus, for performing its translation, or have entered for its announcement, hold civil liability, but only in the case when the abstract is misleading, inaccurate or contradictory to other sections of the Base prospectus.

### 6.1. Information on the offering program

Issuer	JSC "Mortgage and Land Bank of Latvia"
Securities	Mortgage bonds
Gross volume of the Program	LVL 150,000,000.00 (One hundred fifty million Latvian lats) or equivalent in Euros or USD
Maturity	Maturity of each Series shall not exceed 10 year and it shall appear in the Final terms of the offer.
Currency	LVL, EUR, USD
Type of bonds	Bearer
Category of bonds	Negotiable without any restrictions
Depository	JSC "Central Depository of Latvia"
Regulated market	Debt Securities List of the JSC "Riga Stock Exchange"

### 6.2. Risks

Main risks pertaining to Mortgage Bonds:

- Credit risk for loans used for cover of Mortgage Bonds;
- Interest rate risk;
- Premature repayment risk for loans used for cover of Mortgage Bonds.

The key factor, able to affect Mortgage Bank's ability to comply with its commitments towards investors is insolvency.

The mentioned risk factors are described in detail in Article 8 of the Base prospectus. The investors should evaluate the risks themselves prior to purchase of bonds, as they may materially affect the Issuer's ability to disburse the principal of Mortgage bonds.

### 6.3. Issuer

The Issuer of the bonds under this program is the State-owned Joint Stock Company "Mortgage and Land Bank of Latvia", its legal address is Dome square 4, Rīga (Doma laukums 4, Rīga, LV 1977). Bank is registered with the Register of Enterprises of the Republic of Latvia on 3 June 1993 in Rīga. Registration Nr.000313243.

Mortgage Bank is registered with the Commercial Register on 14 July 2004 in Rīga. Mortgage Bank has been assigned the unified registration No 40003132437.

In accordance with the Development Concept of the Mortgage and Land Bank of Latvia, approved by the Cabinet of Ministers of the Latvia Republic on November 1,

2006, the Mission of the Bank is to promote the economic development of Latvia through provision of the financial mediation and related services. To implement the Mission three operational directions are pursued:

- lending to small and medium-sized enterprises (SME) – promotion of economic activity under state approved and supported programs,
- initiation of legislation and issuing of Mortgage Bonds – development of mortgage lending system,
- provision of retail banking services all over Latvia on a commercial basis – financial mediation.

Implementing this mission, the Bank is a development bank and a commercial bank at the same time.

**The Bank has 30 branches, one in each district centre, and 9 subbranches in various regions of Latvia providing services to the customers in the whole territory of Latvia**

Mortgage Bank performed the following banking operations:

- lending;
- servicing of the current accounts of the individuals and legal entities and related products, effecting of cash transactions in lats and foreign currencies;
- issuance of international payment cards;
- purchase and sale of foreign currencies;
- issue of Mortgage Bonds;
- servicing of securities' accounts, transactions with securities at Riga Stock Exchange and over the counter;
- evaluation of real estate, transactions with the real estate;
- servicing of land and flats privatisation process;
- servicing of privatisation vouchers' accounts, providing for the privatisation process of enterprises.

Mortgage Bank's paid-up share capital is 48,513,143 (forty-eight million five hundred thirteen thousand one hundred forty-three) Lats.

According to the nine-month report, the consolidated amount of assets of the Mortgage Bank as on 30 September 2007 is 849,700 million lats, capital and reserves 63,143 million lats, the volume of granted loans – 622 million lats, the volume of attracted deposits – 283 million lats. Nine-month profit in 2007 is 5,13 million Lats.

The Mortgage Bank Council Members are Gundega Šulca, Andris Liepiņš, Jānis Šnore, Baiba Bāne, Vija Gēme, Baiba Pašvica, Dace Ratniece, Iveta Strautiņa.

The Mortgage Bank Board Members are Inesis Feiferis, Rolands Paņko, Aija Laicāne, Jēkabs Krieviņš, Andris Riekstiņš.

Audit of Mortgage Bank's financial statements of 2005 and 2006, and review of 9-month financial statements of 2006 and 2007 was conducted by auditors of PricewaterhouseCoopers SIA.

Shareholder of Mortgage Bank by 100% is the State of Latvia.

The audited profit and loss statements for 2006 and 2005

	2006		2005	
	Group	Bank	Group	Bank
Interest income	32,928	31,644	23,640	22,926
Interest expense	(16,297)	(16,174)	(11,017)	(11,017)
Net interest income	<b>16,631</b>	<b>15,470</b>	<b>12,623</b>	<b>11,909</b>
Commission fee income	3,533	3,483	2,976	2,975
Commission fee expense	(640)	(618)	(511)	(503)
Net fee and commission income	<b>2,893</b>	<b>2,865</b>	<b>2,465</b>	<b>2,472</b>
Dividend income	1	-	-	-
Net securities and foreign exchange trading income	1,255	1,272	1,582	1,569
Other operating income	3,941	2,978	3,312	3,248
Staff Costs	(7,606)	(6,924)	(5,772)	(5,514)
Administrative Expenses	(6,557)	(6,167)	(5,327)	(5,153)
Depreciation and amortisation	(2,189)	(2,124)	(2,071)	(2,049)
Provision for impairment losses	(1,159)	(1,159)	(1,284)	(1,284)
Profit before income tax	<b>7,210</b>	<b>6,211</b>	<b>5,528</b>	<b>5,198</b>
Corporate income tax	(1,204)	(1,027)	(857)	(803)
Profit for the reporting period	<b>6,006</b>	<b>5,184</b>	<b>4,671</b>	<b>4,395</b>

Audited balance as of December 31, 2006 and December 31, 2005.

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
<b>Assets</b>				
Cash and balances with Central Bank	58,007	58,006	15,843	15,843
Trading securities	2,852	2,852	2,269	2,269
Other financial assets at fair value through profit or loss	-	-	8,277	8,277
Investment securities – available for sale	50,174	50,174	16,238	16,238
Due from credit institutions	72,021	71,949	20,804	20,768
Derivative financial instruments	2	2	-	-
Loans to customers	499,484	489,250	379,576	378,651
Investment properties	2,253	2,253	2,139	2,139
Investment in subsidiaries and associated undertakings	422	424	174	474
Intangible assets	1,314	1,264	1,345	1,306
Liabilities and Shareholders Equity	8,134	7,822	8,079	7,974
Other liabilities	2,748	622	758	672
Deferred expenses and accrued income	605	512	706	687
Total assets	<b>698,016</b>	<b>685,130</b>	<b>456,208</b>	<b>455,298</b>
<b>Liabilities</b>				
Due to credit institution	296,229	285,566	152,072	152,072
Customer deposits	274,043	274,185	194,324	194,345
Derivative financial instruments	20	20	-	-
Transit funds	2,869	2,869	3,160	3,160
Mortgage bonds	43,211	43,211	33,627	33,627
Other liabilities	5,160	4,604	1,682	1,290
Deferred income and accrued expenses	1,778	1,326	1,152	972
Current income tax liability	796	569	363	305
Deferred Tax Liabilities	899	890	970	968
Subordinated debt	13,302	13,302	13,302	13,302
Total liabilities	<b>638,307</b>	<b>626,542</b>	<b>400,652</b>	<b>400,041</b>
<b>Shareholders equity</b>				
Share Capital	48,513	48,513	48,513	48,513
Reserve Capital	2,524	2,063	2,063	2,063
Revaluation deficit on available-for-sale investments	(615)	(615)	(35)	(35)
Retained earnings	9,287	8,627	5,015	4,716
Total equity and reserves	<b>59,709</b>	<b>58,588</b>	<b>55,556</b>	<b>55,257</b>
Total liabilities	<b>698,016</b>	<b>685,130</b>	<b>456,208</b>	<b>455,298</b>
<b>Off balance sheet items</b>				
Contingent liabilities	11,891	11,891	4,605	4,605
Financial commitments	36,077	40,453	25,033	26,915

Audited profit and loss statements for nine months of 2007 and nine months of 2006

(all amounts in thousands of Lats)	9 months of 2007		9 months of 2006	
	Group	Bank	Group	Bank
Interest income	37,230	35,532	23,207	22,394
Interest expense	(20,835)	(20,757)	(11,187)	(11,168)
Net interest income	<b>16,395</b>	<b>14,775</b>	<b>12,020</b>	<b>11,226</b>
Commission fee income	3,001	3,017	2,614	2,581
Commission fee expense	(613)	(566)	(445)	(429)
Net fee and commission income	<b>2,388</b>	<b>2,451</b>	<b>2,169</b>	<b>2,152</b>
Dividend income	-	500	-	-
Net securities and foreign exchange trading income	1,608	1,577	842	843
Other operating income	3,304	2,453	4,356	1,612
Staff Costs	(7,306)	(6,692)	(5,473)	(5,002)
Administrative Expenses	(6,021)	(5,471)	(7,121)	(4,581)
Depreciation and amortisation	(1,799)	(1,698)	(1,677)	(1,609)
Provision for impairment losses	(1,950)	(1,705)	(567)	(617)
Profit before income tax	<b>6,619</b>	<b>6,190</b>	<b>4,549</b>	<b>4,024</b>
Corporate income tax	(1,198)	(1,059)	(756)	(664)
Profit for the reporting period	<b>5,421</b>	<b>5,131</b>	<b>3,793</b>	<b>3,360</b>

Audited balance as of September 30, 2007 and September 30, 2006.

(all amounts in thousands of Lats)	30/09/07		31/12/06	
	Group	Bank	Group	Bank
<b>Assets</b>				
Cash and balances with Central Bank	62,654	62,654	58,007	58,006
Trading securities	1,309	1,309	2,852	2,852
Investment securities held to maturity	3,625	3,625	-	-
Investment securities – available for sale	49,145	49,145	50,174	50,174
Due from credit institutions	86,813	86,677	72,021	71,949
Derivative financial instruments	-	-	2	2
Loans to customers	628,430	620,533	499,484	489,250
Investment properties	2,253	2,253	2,253	2,253
Investment in subsidiaries and associated undertakings	422	924	422	424
Intangible assets	2,102	2,021	1,314	1,264
Liabilities and Shareholders Equity	8,900	7,898	8,134	7,822
Other liabilities	3,338	1,408	2,748	622
Deferred expenses and accrued income	709	619	605	512
<b>Total assets</b>	<b>849,700</b>	<b>839,066</b>	<b>698,016</b>	<b>685,130</b>
<b>Liabilities</b>				
Due to credit institution	420,025	411,569	296,229	285,566
Customer deposits	282,857	283,470	274,043	274,185
Derivative financial instruments	5	5	20	20
Transit funds	2,759	2,759	2,869	2,869
Debt securities issued	51,930	51,930	43,211	43,211
Other liabilities	11,679	10,921	5,160	4,604
Deferred income and accrued expenses	2,656	2,062	1,778	1,326
Current income tax liabilities	247	228	796	569
Deferred tax liabilities	899	890	899	890
Subordinated debt	13,500	13,500	13,302	13,302
<b>Total liabilities</b>	<b>786,557</b>	<b>777,334</b>	<b>638,307</b>	<b>626,542</b>
<b>Shareholders equity</b>				
Share Capital	48,513	48,513	48,513	48,513
Reserve Capital	2,524	2,063	2,524	2,063
Revaluation deficit on available-for-sale investments	(1,202)	(1,202)	(615)	(615)
Retained earnings	13,308	12,358	9,287	8,627
<b>Total equity and reserves</b>	<b>63,143</b>	<b>61,732</b>	<b>59,709</b>	<b>58,588</b>
<b>Total liabilities</b>	<b>849,700</b>	<b>839,066</b>	<b>698,016</b>	<b>685,130</b>
<b>Off balance sheet items</b>				
Contingent liabilities	3,593	3,593	11,891	11,891
Financial commitments	48,829	74,463	36,077	40,453

7. Authorized auditors

Audit of Mortgage Bank's financial statements of 2005 and 2006 was conducted by auditors of PricewaterhouseCoopers SIA.

Registration number:

000314279

Legal address:

Kr.Valdemāra iela 19, Rīga, LV-1010

Phone:

7094400

Fax:

7830055

License:

**No. No 5, non-term, issued on 10 July 2002  
by Association of Certified Auditors of  
Latvia**

Auditor responsible for auditing  
reports of 2005 and 2006:

Certified auditor Juris Lapše,  
**certificate No 116**

## **8. Risks associated with the Issuer and type of securities to be issued**

### **8. Risks associated with the Issuer and type of securities to be issued**

#### **8.1. Caution**

The potential Investor should thoroughly analyze the risks listed in this Chapter. They may decrease the Issuer's ability to adhere to its commitments and may pertain to the public circulation of Mortgage bonds. Not all potential risks, able to affect the Issuer, may be listed in this chapter.

The further described risks may adversely affect the Issuer and at their worst, may cause insolvency of the Issuer. The potential Investor should evaluate the Issuer's credit risk, as there are no such third party guarantees to payments pertaining to Mortgage bonds.

#### **8.2. Risks associated with the type of securities to be issued**

The main risks associated with Mortgage Bonds are:

- Credit risk for loans used for cover of Mortgage Bonds;
- Interest rate risk;
- Premature repayment risk for loans used for cover of Mortgage Bonds.

##### **8.2.1. Credit Risk**

Credit risk pertains to borrower's inability to fulfil its liabilities for mortgage loans included in the Mortgage Bonds Cover Register.

Credit risk is reduced by legal standards of the Mortgage Bond Law, which state:

- Value ratio of loans included in the Mortgage Bonds cover and mortgaged real estate for dwellings does not exceed 75%, for other real estates – 60%
- A mortgage loan may serve as a cover for Mortgage Bonds only in case when the bank has ascertained of the borrower's solvency prior to granting the mortgage loan.

Essential to credit risk reduction are the following aspects:

- the market value of real estate to be mortgaged shall be determined by persons who have received a professional qualification certificate in accordance with the procedures laid down by the Cabinet of Ministers;
- it is an obligation of the borrower to provide continuous and sufficient insurance of the mortgaged property during the whole period of validity of the mortgage agreement, with the insurance certificate indicating the Bank as the recipient (beneficiary) of payable insurance indemnity;
- supervision of the mortgaged property is conducted in order to control the eventual swing of realty value.

##### **8.2.2. Interest Rate Risk**

Interest rate risk arises when income from loan is less than expense for Mortgage Bonds. The Law on Mortgage Bonds stipulates that total interest income from assets included in the Mortgage Bonds cover always exceed the total interest expense for Mortgage Bonds.

Interest rate risk is reduced by:

- eliminating differences in base rates of loans included in the Mortgage Bonds cover and Mortgage Bonds interest rates (if the cover includes loans with the floating rate, bonds with the floating interest rate are issued);
- adjusting the repayment terms of the loans included in the Mortgage Bonds cover register and terms of Mortgage Bond redemption;
- reserving an option to redeem bonds prematurely or redeem them on the secondary market.

In case the interest income from of assets included in the Mortgage Bonds cover is less than the total interest expense of Mortgage Bonds, the cover register shall be augmented by a substitute cover and other assets as indicated by the Law on Mortgage Bonds.

#### 8.2.3. Premature Loan Repayment Risk

Premature Repayment Risk arises when the Issuer issues Bonds, not redeemable prior to their maturity or there are certain periods provided for their premature redemption, but borrowers repay to the Bank a substantial amount of their loan, which is used for Mortgage Bonds cover, prior to terms agreed in the loan agreement. Such a situation may arise on cases of a substantial decrease of market interest rate and mass refinancing of mortgage loans by Borrowers to a currency other than denomination of the issued Bonds.

Premature repayment risk is reduced by:

- Law on Mortgage Bonds requirement, ordering that the volume of assets to be used for Mortgage Bond cover must be larger than the total volume of Mortgage Bonds in circulation at their face value by at least 10 percent of the total risk-weighted assets included in the Mortgage Bond cover (overcollateral);
- including new loans or substitute cover;
- reserving the option to redeem the Bonds prematurely or buy them out on the secondary market.

#### 8.3. Risks associated with the Issuer

The key factor, able to affect Mortgage Bank's ability to comply with its commitments towards investors is insolvency. Contingency of Issuer's insolvency corresponds to the risk levels of activities of commercial banks.

Investors' risks associated with the Issuer are mitigated by:

- requirements to banks issuing Mortgage Bonds, as stated in Article 5 of the Law on Mortgage Bonds:
  - a) its own funds are not less than five million lats;
  - b) it is permitted to provide all the banking services specified in Article 1, Clause 4 of the Credit Institution Law without any restrictions imposed by the Financial and Capital Market Commission;
  - c) the Bank has submitted to the Financial and Capital Market Commission rules approved by the Bank's supervisory board regarding the valuation of the real estate to be mortgaged and the management of the Mortgage Bond cover register.
- FCMC supervision not just as an Issuer, but as a bank in general;
- Asset and liabilities management:
  - a) total interest income from assets included in Mortgage Bond cover must exceed total interest expenses on Mortgage Bonds;
  - b) the volume of assets to be used for Mortgage Bond cover must be larger than the total volume of Mortgage Bonds in circulation at their face value by at least 10 percent of the total risk-weighted assets included in the Mortgage Bond cover;
  - c) inclusion of a substitute cover in the cover register;
  - d) for the purpose of mitigating or averting the risk of financial losses, there is an option to use agreements on the cover asset risk mitigation for Mortgage Bond cover – agreements that are secured by assets included in the Mortgage Bond cover.
- strictly defined procedure in case of the Issuer's insolvency and bankruptcy, awarding a privileged status to the Mortgage Bond investors, because the money,

obtained from the assets included in the cover register, shall be used primarily for disbursement to Bond holders.

Taking into account the abovementioned, investors' risk is not associated with overall insolvency risk of the Issuer.

#### 8.3.1. Risk management

The Issuer manages all the major risks affecting the operation of the Issuer in accordance with the Risk Management Policy approved by the Council of the Issuer. The Risk Management Policy stipulates and describes the aggregate of measures used to ensure that a possibility of suffering losses is minimised in the event the invested or receivable resources would not be repaid or recovered in due time or full amount or the Issuer would suffer other losses or would not derive the planned profit

The Issuer abides by the following principles in its risk management:

- while assuming the risks the Issuer shall be capable of implementing the aims and assignments defined in its development strategy in a longer run;
- the Issuer shall operate by maintaining an optimum balance between profitability and safeguarding against the risks, i.e. the profitability should be as great as possible, though, the Issuer may not expose itself to risks ;
- risk assessment and management shall be an integral component of the every-day functions of the Issuer ;
- in accordance with their authority and competence the employees of the Issuer shall know customers 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 Issuer;
- the Issuer shall assess the probable losses that it might incur by assuming the risks and avoid extraordinary losses in its operation;
- the Issuer shall identify and assess the probable risks before launching of new products or services or entering new markets;
- where necessary, the Issuer 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 Issuer applies various methods and measures, including the risk limits used to reduce or avoid the probable losses, decision- taking and transaction (operation) authorizations, accumulation of provisions for covering of losses of certain types of risks as well as maintenance of appropriate control procedures.

#### 8.3.2. Credit Risk

The Issuer 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 Issuer in full amount and due time. The Issuer evaluates and controls the credit risk at the level of customer, related customers and branches of the national economy according to the risk limits set at the Issuer.

The Credit Policy describes and defines the principles for the management of the credit risk and it relates to all activities of the Issuer involving credit risk – lending, financial market transactions (operations), intermediary activities on behalf of the clients and issue of guarantees to third parties. The Issuer 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 of the credit risk.

#### 8.3.3. Interest Rate Risk

The interest rate risk is related to the influence of the fluctuations of the market rates onto the interest income and expenses of the Issuer. To assess the interest rate risk the Issuer regularly 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, operating on the basis of bilateral changes of the interest rate curve by 100 percentage points, and the effect of these changes on the actual value of the interest-rate-risk sensitive assets and liabilities cash flow. The Assets and Liabilities Management Committee monitors the interest rate risk, whereas the Treasury Department is responsible for the daily management of the interest rate risk.

#### 8.3.4. 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 Issuer. The Currency Risk Management Policy stipulates the principles for the management of the foreign currency risk.

The Issuer 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.

#### 8.3.5. Liquidity Risk

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

#### 8.3.6. Operational Risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Issuer, for example employee mistakes or frauds, disturbances in the operation of the information systems, insufficient control procedures or their ignorance. Management and control of the operational risk for in the Issuer is achieved by means of the Internal Control System. The structural units of the Issuer are responsible for the management of the operational risk in the daily operations, but the Risk Management Committee monitor the operational risk.

For risks, occurrence of which is unlikely, but the eventual losses – considerable, the Issuer has implemented Business continuity plan that includes guidelines on procedures and actions to be taken by the Issuer, its structural units and employees. The Issuer annually extends its Bankers' Blanket Bond Policy obtained on the insurance market, which is a significant risk management instrument that protects the assets and capital of the Issuer against various losses the Issuer might incur due to its employees or third parties.

## **9. Information on securities offered**

### **9.1. Issue volume and ISIN**

Within the framework of this program, the Mortgage bank is entitled to issue Mortgage bonds of total value of LVL150,000,000 (One hundred fifty million thousand Latvian lats). The Mortgage Bank shall determine the volume of issue and number of Mortgage bonds in Final terms of each series. The issue volume of one series in a Non-competitive auction may not be less than LVL 10,000,000 (Ten million Latvian lats) or equivalent of this amount in EUR or USD.

Each Series of Mortgage bonds issued under this Program shall be attributed an ISIN code by the LCD prior to opening of the public offering of the respective issue.

The ISIN code for each series shall be published on the Mortgage Bank's homepage on the Internet [www.hipo.lv](http://www.hipo.lv) no less than one business day prior to public offering opening date

### **9.2. Type and form**

Mortgage bonds are bearer's debt securities, negotiable without any restrictions (transferable securities). Mortgage bonds are issued in the dematerialized form, they appear as an account entry on the Mortgage bonds bearer's financial instruments account with its Account holder.

### **9.3. Issue currency**

Under this Program, the Mortgage bonds Series may be issued in LVL, Euro or USD. Issue currency of each Series shall appear in the Final terms of the offer.

### **9.4. Face value of one Mortgage Bond and the Issue**

The gross volume of nominal values of each series shall be equal to the number of issued Mortgage bonds times the face value of one Mortgage bond. Face value of one Mortgage bond of a series issued under this Program is 100 (one hundred) units of the respective series issue currency (LVL 100, EUR 100 or USD 100). The issue volume of each series and the face value of Mortgage bonds shall be determined in the Final terms of the offer.

### **9.5. Date of issue**

Issue date for each issue of Mortgage bonds, issued under this Program, is settlement date for Mortgage bonds within the framework of the initial public offering. Issue date of each Series shall appear in the Final terms of the offer.

### **9.6. Classification of mortgage bonds**

The total volume of the Program may be divided in separate Series. Title of a Series comprises five symbols:

9.6.1. the first symbol denotes security type (for this program – C (Mortgage bonds));

9.6.2. the second and third symbol denote serial number of the Program (for this program – 01);

9.6.3. the fourth symbol is a letter that stands for the issue currency:

- A – LVL;
- B – USD;
- C – EUR;

9.6.4. the fifth symbol denotes the consecutive Series issued by the Mortgage bank in the respective currency, also taking into account Series of other types of securities issued by the Mortgage bank, put into circulation prior to the Program.

### **9.7. Redemption of Mortgage Bonds and coupon payments**

9.7.1. Maturity of each Series shall not exceed 10 years. Maturity of each Series shall appear in the Final terms of the offer.

9.7.2. Mortgage bonds are redeemed at their face value on the date of their maturity.

9.7.3. Mortgage Bank conducts payment procedure of the principal amount of Mortgage bonds on their redemption date via LCD as defined by the LCD regulations regulating payment procedure of the principal of debt securities.

When paying the principal on Mortgage bonds, Mortgage Bank transfers the whole payment amount to LCD cash account no later than the redemption date. . LCD transfers the money to account holders on the redemption date according to the amount of securities in the correspondent accounts on the redemption date. Holder of accounts (where security owner has opened security account) transfers the redemption amount to cash accounts of owners of the Bonds within one business day after receipt of the money from LCD.

9.7.4. Should the Mortgage bond redemption date fall in a weekend or a holiday, the settlement of the principal shall be conducted on the first following business day.

9.7.5. Mortgage Bank has the rights to redeem the Mortgage bonds prior to their maturity on the following occasions:

9.7.5.1. For the part of the Mortgage bonds issue, not undergone the initial placement;

9.7.5.2. Mortgage bonds, which the Mortgage Bank has obtained on the secondary securities market. In case Mortgage Bank obtains Mortgage bonds on the secondary market and resolves to redeem them, then the Issuer shall post a respective announcement in the RSE information system no later than 5 (five) business days prior to the redemption date, indicating the redemption date and the number of Bonds to be redeemed.

9.7.5.3. Bonds, which have been obtained by Mortgage Bank in other legal way and redemption of which is not restricted by legal acts;

9.7.5.4. When the Final terms of the offer include such eventual premature repayment conditions for the Series at demand by Mortgage Bank or investors, dates, announcement and payment procedure and price.

9.7.6. In case Mortgage Bank has not performed payments for redemption of the Mortgage bonds, investors can submit pertinent claims starting with the 4<sup>th</sup> (fourth) business day from the date of redemption of the Mortgage bonds.

9.7.7. The Series issued under this Base prospectus may be of the following types of coupon interest rate:

9.7.7.1. Variable (*floating rate*).

It consists of six-month money market index of the respective issue currency, expressed as annual interest, and the fixed portion, which does not change until redemption of the Series. Coupon payments shall be twice a year. Coupon calculation and payment dates and the amount of the fixed portion of the Coupon shall be determined in the Final terms.

The coupon rate shall be determined 5 (five) business days prior to the start of the interest period and it shall be announced by the Mortgage Bank by publishing it in the RSE trade system on Mortgage bank's website [www.hipo.lv](http://www.hipo.lv) no later than 3 business days before the start of the interest period.

If the index used is not calculated after the issue, then Mortgage bank shall replace it by another index of the same term, adjacent by nature. The coupon rates shall not be rounded.

If the Bonds are issued in Latvian lats, the calculation of Coupon annual interest rate shall use the six-month RIGIBOR index, calculated by the Bank of Latvia, and the rate shall be published on the website of the Bank of Latvia [www.bank.lv](http://www.bank.lv).

, the calculation of Coupon annual interest rate shall use the six-month EURIBOR index, calculated by the Federation of European Banks, and the rate shall be published on the website of the Bank of Latvia [www.bank.lv](http://www.bank.lv) and the website of the Federation of European Banks [www.euribor.org](http://www.euribor.org).

, the calculation of Coupon annual interest rate shall use the six-month LIBOR index, calculated by the British Bankers Association, and the rate shall be published on the website of the Bank of Latvia [www.bank.lv](http://www.bank.lv) and the website of the British Bankers Association [www.bba.org.uk](http://www.bba.org.uk).

#### 9.7.7.2. Fixed rate.

The annual coupon rate shall be determined by the redemption date of the Series. The annual coupon rate of each Series shall be determined by Mortgage bank in the Final terms of the offer. Coupon payments shall be twice a year. Coupon calculation and payment dates shall be determined in the Final terms.

9.7.8. Coupon payment shall be conducted via LCD according to the effective LCD regulations, regulating the procedure of payment of proceeds from debt securities. Should the Coupon payment date fall in a weekend or a holiday, the Issuer shall conduct a respective Coupon payment on the immediate following business day.

9.7.9. In case Mortgage Bank has not performed payments for interest income, investors can submit claims for interest payment starting with the 4th (fourth) business day from the date of interest income payment.

### 9.8. Price and yield calculation method

9.8.1. For an issue of Mortgage bonds with a fixed annual coupon rate

Yield to maturity rate of Bonds (yield) is the interest rate at which the discounted cash flow of Bonds (discounting the cash flow by this yield rate) is equal to price of the Bonds. The YTM rate is determined by means of iteration process – changing the value of yield rate until discounted cash flow of Bonds equals the price of the Bonds.

$$P = \sum_{i=1}^I 100 \times C / 2 / (1 + YTM / 2)^{d/180} + 100 / (1 + YTM / 2)^{d/180}, \text{ where}$$

P – Price of one bond including coupon accrued;

C – Annual coupon rate;

YTM – yield to maturity rate;

I – number of the Coupon payments until redemption of Bonds;

d – number of days to the respective coupon disbursement date, repayment of the principal by the 360 days per annum / 30 days per month day count convention.

Calculating the accrued coupon, it is assumed that there are 360 days per annum and 30 days per month (Day count convention – „European 30/360”). The accrued coupon (interest) between coupon payment dates is calculated by the following formula:

$$AI = \frac{f \times C}{360} D, \text{ where}$$

AI – the accrued coupon (interest);

F – par value of a Bond;

C – Annual coupon rate;

D – number of days from the start of the coupon accrual period by 360 days per annum/ 30 days per month day count convention.

9.8.2. For an issue of Mortgage bonds with a floating annual coupon rate

The annual coupon rate of Mortgage bonds shall be revised after a certain period. index is not available, also the payment rate of each Coupon is unpredictable, therefore any yield calculation is not feasible.

Calculating the accrued coupon, it is assumed that there are 360 days per annum (Day count convention – „European 30/360”) The accrued coupon (interest) between coupon payment dates is calculated by the following formula:

$$AI = \frac{f \times C}{360} D, \text{ where}$$

AI – the accrued coupon (interest);

F – par value of a Bond;

C – Annual coupon rate;

D – number of days from the start of the coupon accrual period by Actual/360 count convention.

Date for interest calculation for each issue shall be specified in the Final terms, though not later than the day of settlement for a respective issue.

## **10. Terms of offering**

### **10.1. Initial placement of bonds**

#### **10.1.1. Term of initial placement**

Initial offering term for each series is one RSE trade session. Public offering date of each Series shall appear in the Final terms of the offer. The term of underwriting to the respective Mortgage bonds series may not be extended, unless for the purpose to issue new Mortgage bonds, the Mortgage Bank, as to build a uniform Series, recomposes the Final terms of the offering and issues extra Mortgage bonds on the same conditions as any of the Mortgage bonds Series issued earlier under this Program.

The final term of initial placement of Mortgage bonds may not be later than June 7, 2009.

#### **10.1.2. Initial placement procedure**

10.1.2.1. Placement of Mortgage bonds of each series is conducted via a Non-competitive auction, organized by the RSE.

Investors willing to participate in the auction shall submit their Mortgage bonds purchase orders to RSE members holding financial instrument accounts for them no later than the auction day. The RSE members further enter the purchase orders to the RSE trading system on the non-competitive auction day until 1 PM Riga time.

10.1.2.2. All Mortgage bonds purchase orders shall contain the number of Mortgage bonds the investor is willing to purchase, the price of securities as determined by the Mortgage Bank, including the accrued interest to the settlement date (Dirty price), and total of par values.

The minimum amount of Mortgage bonds to bid for is 1 (one) bond. The maximum purchase amount of Mortgage bonds per purchase order may not exceed the number of Mortgage bonds offered by the Mortgage Bank in the respective Non-competitive auction.

10.1.2.3. In a Non-competitive auction, orders are executed proportionately by volumes of securities' nominal values indicated in the orders. With this process completed, should there remain an unassigned volume of securities' nominal values, it is allotted to the Stock-Exchange member, having the largest volume of securities' nominal values indicated in its order. In case two or more orders have the same volume of securities' nominal values indicated, the remaining of volume of securities' nominal values is allotted to one of these Stock-Exchange members using random principle generated by the Stock-Exchange trading system.

#### **10.1.3. Determination of price of Mortgage bonds for initial placement transactions**

10.1.3.1. Mortgage bonds shall be sold in initial placement to all investors at the price, which shall be determined by a Mortgage Bank's Board resolution no later than five business days prior to the Non-competitive auction of each series. Depending on the starting date for calculation of interest income, the accrued interest to the settlement date may be added to the Mortgage bonds price in initial placement, according to the method "Calculation of yield and accrued interest" described in Article 9.8. of the Base prospectus.

Price, the accrued interest amount and yield rate for the fixed rate Mortgage bonds shall appear in the Final terms of the offer. The Mortgage Bank shall promptly send the offer condition statement to RSE. RSE provides information accessibility on the RFB website [www.lv.omxgroup.com](http://www.lv.omxgroup.com).

10.1.3.2. The investor, purchasing Mortgage bonds, may face additional costs to bargain costs – commission fees for opening accounts, conclusion and processing of transaction. These expenses may differ with various Stock-Exchange members, and

the investor may request this information from the Stock-Exchange member, whose mediation services the Investor intends to use for dealing with the Mortgage bonds. Mortgage Bank does not receive the mentioned costs and bears no responsibility for the mentioned additional expenses.

#### 10.1.4. Reduction in the amount of Mortgage bonds issue

Each Mortgage bonds series is regarded as put into circulation, judging by Mortgage bonds volumes sold on the non-competitive auction. In case the volume of Mortgage bonds placed in initial placement falls below LVL 3,000,000.- (three million Latvian lats) equivalent in issue currency, the initial placement is considered as non-occurring.

### **10.2. Settlements for initial placement transaction**

The payment for bond purchase transactions shall be made on the third business day after the non-competitive auction day in accordance with DVP (Delivery Versus Payment) principle, and in accordance with CDL Regulations No. 6 "On Settlements of Transactions Concluded at or Registered with Stock-Exchange".

### **10.3. Information on the public offering outcome and trade of Mortgage Bonds**

10.3.1. Information on results of Public Offering of each Series shall be published on the Mortgage Bank's website [www.hipo.lv](http://www.hipo.lv) no later than 10 AM on the next business day after the initial placement is complete.

10.3.2. The Investor may obtain the information on the amount of Mortgage bonds purchased as the result of transactions made during the Public offering at the Bank or Investment Brokerage Company mediating the transaction of the Mortgage bonds purchase.

10.3.2. The Investor is entitled to make trading transactions with Mortgage bonds as soon as they have reached the financial instruments account of the Investor.

### **10.4. Securities placement procedure**

In accordance with the agreement concluded between the Mortgage Bank and RSE, the Mortgage Bank conducts placement of Mortgage bonds within the Program in non-competitive auctions organized by RSE.

### **10.5. Preemption rights**

None of the potential Investors shall have preemption rights to Mortgage bonds at their initial placement.

### **10.6. Depository**

Functions of depository are provided by the JSC "Central Depository of Latvia", legal address: Valņu iela 1, Rīga, LV-1050.

### **10.7. Availability of the base prospectus**

All investors may access the Base prospectus and download it free of charge on the Mortgage Bank's website: [www.hipo.lv](http://www.hipo.lv)

### **10.8. Attracted funds performance report**

The aim of the public offer of Mortgage bonds is to attract funds to further the primary operating activities of the Mortgage Bank. Resources attracted as the result of the Mortgage bonds issue shall be contributed to improve the maturity structure of assets and liabilities.

### **10.9. Legal information**

#### **10.9.1. Issuer's resolutions on the issue of Bonds**

10.9.1.1 Mortgage bonds are issued under this Program in accordance with Mortgage Bank's shareholder's meeting on June 8, 2006 (minutes No.2).

10.9.1.2. The Base prospectus was approved at Mortgage Bank's Board meeting on 22 January 2008 (Minutes No. 5).

10.9.1.3. Resolution on amendments to the Base prospectus and approval of a new edition of the Base prospectus was made on Mortgage Bank's Board meeting on February 5, 2008 (Minutes No.7).

10.9.1.4. The Base prospectus was approved at Mortgage Bank's Board meeting on April 8, 2008 (Minutes No. 19).

10.9.2. Outstanding guarantees

No person has guaranteed payment of the nominal value of Mortgage bonds.

10.9.3. Legal acts regulating the offer program

10.9.3.1. "Law on Financial Instruments Market", passed on 20 November 2003 in Saeima of the Republic of Latvia.

10.9.3.2. Other effective LR enactments, including FCMC, LCD and RSE regulations.

10.9.4. Restrictions to transferability of mortgage bonds

Mortgage bonds are negotiable without any restrictions on the secondary market.

10.9.5. Rights embedded in securities

The investors are entitled to receive the principal of Mortgage bonds (par value) and coupon payments on dates and terms determined in the Final terms of the offer, as well as submit claims in accordance to terms and procedure determined in Article 9.7.5 of the Base Prospectus in case of undue disbursement of respective amounts, as well as exercise other rights embedded in the Base Prospectus and legal enactments of the Republic of Latvia.

The rights of the holders embedded in Mortgage Bonds are protected by the Law on Mortgage Bonds and the Law on Credit Institutions.

In accordance to Article 24 of the Law on Mortgage Bonds, in cases where the Mortgage Bond Issuer becomes insolvent as well as in other cases where the right to issue Mortgage Bonds is lost, it is prohibited to change the composition of the Mortgage Bond Cover Register by such decisions as stipulated in the rules for managing the Mortgage Bond Cover Register and all income from assets included in the Mortgage Bond Cover Register shall be accrued within its composition.

In accordance to Article 26 of the Law on Mortgage Bonds, if a bank, which has taken over Mortgage Bonds liabilities of a bank in liquidation, is incapable of attesting to the necessary Mortgage Bonds collateral in compliance with the Law on Mortgage Bonds, the Financial and Capital Market Commission shall file an application to court regarding the insolvency of the Mortgage Bonds Cover Register. The insolvency and bankruptcy proceedings of the Mortgage Bond Cover Register shall be treated as the insolvency and bankruptcy proceedings of credit institutions regulated by precepts of the Credit Institution Law and the Civil Procedure Law. The administrator of the Mortgage Bond Cover Register appointed by court shall manage the insolvency and bankruptcy proceedings in accordance with the precepts of the Credit Institution Law. During the insolvency and bankruptcy proceedings, all Bondholders shall have equal rights to claim. They comprise the Bonds' face value and the Interest Income accrued to the date of declaring insolvency. All the volume of the Mortgage Bond Cover Register participates in bidding proceedings, except for remuneration to the administrator.

Article 191 of the Law on Credit Institutions stipulates that in the event of bankruptcy of the credit institution, funds derived from the assets included in the Cover Register

shall be used to meet the liabilities resulting from the issue of the Bonds before the claims of other creditors.

#### **10.10. Cover of Bonds**

10.10.1. As of drafting the Prospectus, the cover of Bonds is formed by the mortgage loans included in the Mortgage Bond Cover Register of the Mortgage Bank that are secured by pledge (mortgage) on a real estate registered with the Land Book. The loan to value ratio of the mortgage loans shall not exceed the ratio defined in Article 14 of the Law on Mortgage Bonds. (The mortgage loan together with loans previously entered into the Land Register does not exceed 75% of the market value of such mortgaged real estate, as is used for dwelling purposes throughout a year, or 60% of the market value of any other type of mortgaged real estate).

10.10.2. Loans guaranteed by the state of Latvia or municipalities can be partly or fully used for cover instead of mortgage loans covered by mortgaged real property registered in Land Books.

10.10.3. The Issuer may replace the mortgage loans and loans secured by guarantees of the state of Latvia or municipalities included in the cover register as well as Interest income by substitute cover in accordance with Part 4 Article 9 of the Law on Mortgage Bonds that shall not exceed 20 (twenty) percent of the total face value of the Bonds in circulation together with interest expenses.

10.10.4. The amount of the assets to be used for the cover of the Bonds shall exceed the face value of the Bonds in circulation at least by 10 (ten) percent of the total amount of the weighted assets included in the Bond cover register in each currency and in the aggregate.

The total interest costs of Mortgage Bonds are always covered the manner to exceed the total interest expense for mortgage loans.

10.10.5. The payments of the hedging contracts of the assets and cover assets used for cover of the Bonds shall exceed the payments of the Bonds in circulation at any payment date of the Bonds in each currency and in the aggregate.

10.10.6. The Final terms of each issue shall contain summary data of the cover register as at the moment of producing the Final terms of the offer.

#### **10.11. Imposing income tax on the income derived from the Mortgage Bonds**

##### **10.11.1. Announcement**

Mortgage Bank urges the investors to constantly follow the changes made to the legislation effective in the Republic of Latvia pertaining to the taxation of income derived from securities, since the Base Prospectus describes only the general taxation procedures in accordance with the legislation effective while drafting the Base Prospectus. Information provided in the Base Prospectus should not be treated as a consultation on taxes or legal opinion. We advise investors to consult their tax advisors on par taxes levied from the income gained

##### **10.11.2. Definitions of resident and non-resident**

A physical person, in taxation aspect, is deemed a LR resident, if its permanent place of dwelling is LR or it resides in LR longer than 183 days in any 12-month period, or it is an LR citizen on overseas assignment by the LR Government.

If a physical person does not match the aforementioned criteria, it is deemed a non-resident in taxation aspect.

Any legal entity is deemed a LR resident in taxation aspect, when it is or it should be established and registered in LR according to LR legal enactments. Other legal entities are deemed non-resident in taxation aspect.

The legislation of the Republic of Latvia does not enforce taxation on gains from trade of securities quoted on regulated markets of the EU member states; that applies to residents - legal entities: the result of securities purchase and sales is removed from the taxable revenues of the company, adjusting the corporate income tax annual report.

10.11.3. At the moment of drafting this Prospectus, the effective legislation of the Republic of Latvia stipulates the following procedure for taxation of the income derived from Bonds:

- income paid out to the natural persons – residents and non-residents shall not be levied with an income tax in accordance with the Law “On Personal Income Tax” of the Republic of Latvia passed on 11 May 1993;
- income paid out to the resident legal entities shall be levied with an income tax, which is 15%, in accordance with the Law “On Corporate Income Tax” of the Republic of Latvia passed on 9 February 1995. The legal entity receives income from Bonds to full extent, but, after the corporate income tax annual report is completed and submitted to the respective regional office of the State Revenue Service, the legal entity shall have to pay the corporate income tax.
- income paid out to the non-resident legal entities shall not be levied with an income tax;
- as regards income paid out to the non-resident legal entities, natural persons and other persons who are situated, placed or established in the tax-free and low tax states or territories defined as such by the Cabinet of Ministers regulations, – the disburser of income shall withhold a corporate income tax from the income to be paid out at the moment of disbursement as required by Part 8 of Article 3 of the Law “On Corporate Income Tax” of the Republic of Latvia, Articles 13, 14 of the Cabinet of Ministers Regulations No 319 Regarding Implementation of the Procedures Stipulated by Law on Enterprise Income Tax dated 19 September 2000, Cabinet of Ministers Regulations No 276 Regarding Low Tax or Tax Free States and Territories dated 26 June 2001.

10.11.4. Should an intergovernmental agreement to which the Republic of Latvia is a member state, stipulate a procedure for taxation of income that differs from the procedure stipulated by Article 10.10.3. of this Prospectus, the requirements of the intergovernmental agreement shall be applied.

10.11.4. Mortgage Bank, as the Issuer, is liable for taxation in cases determined in Legal enactments.

## 11. Placing in market and conditions for trade

### 11.1. Regulated market

Arranger of the regulated market is RSE, legal and actual address – Vaļņu iela 1, Rīga, LV-1050, Latvija. Telephone +371 7212431, fax +371 7229411, e-mail riga@omxgroup.com.

Official website – [www.lv.omxgroup.com](http://www.lv.omxgroup.com).

The Issuer shall provide all required documents for inclusion of bonds on the RFB Baltic Debt Securities List, after the Base prospectus is registered with the FCMC and initiation of bonds issue. For each consecutive issue of bonds, the Mortgage Bank shall submit all required documents for inclusion of bonds on the RFB Baltic Debt Securities List, immediately after completion of the respective issue. Trade shall not commence sooner than the next business day after the respective Series issue date, and the day, when the RSE Board adopts the resolution to launch quoting of the bonds on the regulated market.

RSE Baltic Debt Securities List holds a status of an official list regulated by the Law on Financial Instruments Market.

### 11.2. SJSC “Mortgage and Land Bank of Latvia” previously conducted issues of securities, placed on the regulated market

To the moment of Base prospectus drafting, the Mortgage Bank has registered and included in the RSE Debt Securities List:

11.2.1. mortgage bonds of series AI, AH, AL, AM, AJ, AK, AN, the total face value of Ls 23,062,400.00 (twenty-three million sixty-two thousand four hundred Latvian Lats), BA series mortgage bonds for the total face value of USD 6,000,000.00 (six million US dollars), CA series mortgage bonds for the total face value of EUR 20,000,000.00 (twenty million Euro).

11.2.2. P01AO series discount notes of total par value Ls 10,000,000.00 (ten million Latvian lats) and P01CB series discount notes of total par value EUR 9,047,000.00 (nine million forty-seven thousand Euro).

## 12. Additional information

### 12.1. Ratings, assessment

Rating of a bank is the most objective source of information about bank. Its main purpose is to characterize safety of a bank in the eyes of lender, depositor, investor and cooperation partner. Obtainment of rating indicates that a bank has reached a certain level of quality in its development, and it wants to work in line with the best practices of the world.

Since 2001, Mortgage Bank cooperates with one of the world’s leading credit rating agencies – Moody’s Investors Service.

Moody’s Investors Service Limited assigned ratings:

Rating type	Rating	Rating projection	Date of approval
Long-term deposit rating	A2	Stable	25.10.2007
Short-term deposit rating	P1	Stable	25.10.2007
Financial stability index	D-	Stable	25.10.2007
Mortgage Bonds rating	A1	Positive (possible rating upgrade)	05.03.2007

### 13. Information on the Issuer

#### 13.1. Legal information

Title	State-owned Joint Stock Company "Mortgage and Land Bank of Latvia".
Legal address and location of the Head office	Dome square 4, Rīga, LV-1977, Latvia
Telephone number	+371 8000100
Fax:	7820143
e-mail address	bank@hipo.lv
Internet homepage address	<a href="http://www.hipo.lv">www.hipo.lv</a>
Type of merchant	State-owned Joint Stock Company
Legal status	Legal entity
Registration place of the Issuer	Register of Enterprises of the Republic of Latvia on 3 June 1993 in Rīga; Commercial Register of the Republic of Latvia on 29 October 2004 in Rīga;
Unified registration number	No.40003132437
Date of foundation and duration	Mortgage and Land Bank of Latvia was founded on 19 March 1993 by the Cabinet of Ministers order No 140 "On the Mortgage and Land Bank of Latvia". Mortgage Bank's term of operation is not limited.
Country of foundation	Republic of Latvia
Legal background of the Issuer's operation	"Commercial Law" passed on 13 April 2000, "Law on Credit Institutions", passed on 05 October 1995, regulations and requirements of the FCMC and the Bank of Latvia, and other legal enactments of the Republic of Latvia. Regulatory requirements apply to capital adequacy, minimum amount of equity capital, liquidity, foreign currency positions, exposure concentration per client, as well as compliance to other applicable requirements.

#### 13.2. Recent events in commercial activities of the Issuer, significantly affecting the Issuer's solvency evaluation

Since the publication date of the final audited financial statement, the Mortgage Bank does not possess information on events that might significantly affect the Bank's solvency in the current or coming financial years.

#### 14. Commercial activity report

In accordance with the development strategy of the Mortgage and Land Bank of Latvia, the Mission of the Bank is to promote the economic development of Latvia through provision of financial mediation and related services. To implement the Mission three operational directions are pursued:

- lending to the small and medium-sized enterprises (SME) – promotion of economic activity under state approved and supported programs,
- development of legislation and issuing of Bonds – development of mortgage lending system,
- provision of retail banking services all over Latvia on a commercial basis – financial mediation.

Implementing this mission, the Bank is a development bank and a commercial bank at the same time.

To operate in accordance with EU Commission Directive 80/723/EEC and 2000/52/EEC (the so called Transparency Directives), after consultations with DG

Competition, the Bank is reorganizing its management system and separating the functions of the Development Bank and Commercial Bank.

Being a twofold bank – Development Bank and Commercial Bank, the Mortgage Bank implements the State Aid programs and ensures that the State Aid is not misused to gain commercial benefits. The Mortgage 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. Implementation comprises the Small and Medium-sized Enterprise (SME) Development Programme, Housing Development Lending Programme, Agriculture Long-term Investments Lending Programme, Lending Programme for Acquisition of Agricultural Use Land, loans from the Energy Efficiency Fund and project “Housing Improvement Initiative for Energy Saving” Cooperation with credit unions is continued as well.

The Support programmes department ALTUM initiated a new programme to beginners in business – "Training, consultations and financial support to self-employment or entrepreneurship start-ups". Its goal is to activate the entrepreneurial environment and increase the number of entrepreneurs in Latvia. This programme encompasses training of 1000 starting entrepreneurs and granting financial means for beginning of entrepreneurial activity to 300 of them until April of 2008.

2006. The shareholder of the Bank, the Government of the Republic of Latvia, made a decision in 2006 to retain the Bank at the State's disposal as an effective instrument of state administration, by the help of which the State stimulates the economic development of Latvia according to the public interest, and exercises appropriate governmental support and influence in financial services sector to the good of public interest. On 24 October 2006, the Cabinet of Ministers approved of the solution included in the resume of the concept „On State Joint-Stock Company „Mortgage and Land Bank of Latvia” development for 2007-2013”, which determines gradual transformation of the Mortgage Bank to a development bank of complete spectrum of operation. Such a decision empowers the Mortgage Bank to expand its operations to manifold areas, contributing to the economic development of Latvia.

#### **14.1. Principal areas of activities**

The main courses of activities of Mortgage Bank are the following:

- lending;
- servicing of the current accounts of the individuals and legal entities and related products, effecting of cash transactions in lats and foreign currencies;
- issuance of international payment cards;
- purchase and sale of foreign currencies;
- issue of Mortgage Bonds;
- servicing of securities' accounts, transactions with securities;
- evaluation of real estate, transactions with the real estate;
- servicing of land and apartments privatization process, servicing of privatization vouchers' accounts, providing for the privatization process of enterprises.

##### **14.1.1. Lending**

Mortgage Bank actively collaborates in creation and development of the Latvian mortgage lending system, being one of the first banks in the country, issuing long-term loans. Those are loans to both legal and private entities for attainment of various goals: mortgage loans, consumption loans, commercial loans for business development, Mortgage Bank continues to implement the following development

programs commissioned by the government that provide support to specific groups of entrepreneurs and population – Small and Medium-sized Enterprises lending program, Housing Development lending program, rural development programs The Mortgage Bank uses the resources of the credit line to implement support programs for women entrepreneurs. The Bank pays particular attention to micro-lending (loans up to EUR 25 000) and development of co-operation with the credit unions.

14.1.2. Servicing accounts and related products of private and legal entities, and cash operations in Lats and foreign currencies.

Mortgage Bank offers all traditional cash and non-cash transactions: opening accounts, making payments, electronic settlements using internet-bank. All services are available both in Lats and foreign currencies.

14.1.3. Issue of international payment cards

All payment cards the Mortgage Bank offers are international. Mortgage Bank offers *Maestro*, *MasterCard Standard*, *MasterCard Gold* and *MasterCard Business* payment cards. At the end of 2006, there were 34 Bank's ATMs available in Latvia, moreover, due to cooperation agreement with "Latvijas Krājbanka" (Savings Bank of Latvia) and "Rietumu bank" (Western Bank) the same conditions apply when using ATMs of the named banks. Mortgage Bank offers enterprises to install POS terminals, and more than 150 POS terminals were installed in Latvia at the end of 2006.

Due to more and more rapidly increasing number of travels and the volume of financial means spent on them, the Mortgage Bank started to offer its first specialized credit card for travelling – „World card” (“Pasaules karte”) as of August 2006. Using that, one may purchase tickets on the Internet, book and pay for hotels, make payments in Latvia and abroad free of commission fee, get discounts with travel companies and other advantages. The Bank offers the cardholder options – a loan of the amount up to five monthly salaries, „credit grace period” and, in case of contingent expenses, a special service of the Mortgage Bank is available to the owners of the new „World card” – „Glābējzvens” (“Saved by the Bell”).

14.1.4. Foreign currency transactions

Mortgage Bank offers an opportunity to conclude various financial market transactions, including non-cash and cash foreign exchange market transactions for ensuring of the current settlements and prevention of currency risk. Mortgage Bank offers competitive currency exchange rates and prices of securities, as well as individual approach to the conclusion of the transactions. The specialists of Mortgage Bank are ready to go into detail of customers' needs, consult the customers, familiarize the customers with the situation on the financial markets and find the optimum solution together with the customer.

14.1.5. Issue of Mortgage Bonds

The Bank engages in the development of the mortgage lending system of Latvia, establishment and development of the market in mortgage-backed securities as well as promotion of mortgage-backed securities actively. By 2004, Mortgage Bank was the sole Issuer of Mortgage Bonds in Latvia. Mortgage Bonds issued by Mortgage Bank are marketable and safe financial instrument in the financial market of Latvia, of still growing popularity. 2004. In 2004, Mortgage Bank in cooperation with SEB Unibanka as the securities issue organizer, issued bonds in US dollars for the first time, and the bonds were sold to foreign investors, which may be regarded the moment when Mortgage Bonds of Latvia were broadly recognized by foreign investors. In 2006, proceeding with implementation of mortgage bond system in Latvia, the Mortgage bank issued mortgage bonds in euros, the volume of EUR20,000,000.00.

The purpose of issuing was to attract financial resources for refinancing of the long-term mortgage loans.

14.1.6. Servicing of securities' accounts, transactions with securities;

Mortgage Bank is one of the leading banks on the securities market of Latvia. Mortgage Bank takes active part both in debt securities market and bond market. Mortgage Bank makes available to its clients to operate additionally on Tallinn and Vilnius stock-exchanges as of July 1, 2006. The clients, for operation in Tallinn and Vilnius, have also the opportunity to use the direct trade system I-Brokeris. As the Bank is also a member of the Riga Stock Exchange, it has become the eleventh bank holding a member status in all Baltic stock exchanges.

14.1.7. Servicing the privatization process

Mortgage Bank provides services to privatization process of apartments and land as well as privatization process of enterprises.

Mortgage Banks Central and branches offer options to open accounts for privatization vouchers, transfer voucher accounts and conduct transactions with vouchers. Mortgage Bank is one of two banks in Latvia, dealing with services of privatization voucher accounts.

## 2. Main markets

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

Position of the Mortgage Bank on the Latvian bank market\*

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion on in field	Amount ('000)	Proportion on in field	Amount ('000)	Proportion on in field
Assets of the Bank	316,774	4.3%	469,283	4.3%	691,768	4.3%	846,347	4.2%
Shareholders equity**	25,318		55,180		58,712	6.4%	61,732	5.1%

\* Data source: Statistics figures of the Association of the commercial banks of Latvia (www.bankasoc.lv)

\*\* No complete data on the capital and reserves

## Market division of key products of Mortgage Bank

### 14.2.1. Market division of portfolio\*

*By type of borrower*

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion on in field	Amount ('000)	Proportion on in field	Amount ('000)	Proportion on in field
Central and local governments	1,329	1.96%	908	1.00%	755	0.99%	1,626	1.75%
Financial institutions	13,017	2.85%	28,156	3.66%	46,803	4.78%	79,007	7.96%
Public non-financial companies	17	0.02%	284	0.26%	362	0.32%	717	0.38%
Private non-financial companies	150,196	6.26%	211,890	6.10%	253,934	4.83%	324,901	4.68%
Households	102,984	7.70%	138,487	5.56%	187,652	4.26%	214,489	3.65%
Non-profit institutions servicing households	255	1.12%	476	1.84%	699	1.68%	662	1.68

*By type of loan*

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion on in field	Amount ('000)	Proportion on in field	Amount ('000)	Proportion on in field
To central and local governments * *	1,329	1.96%	908	1.00%	755	0.99%	1,626	1.75%
Loans for increase of current assets (commercial loan)	32,952	2.69%	52,231	2.71%	73,730	3.04%	114,167	4.01%
Industrial loans	111,670	13.32%	162,059	13.17%	212,183	14.86%	282,606	15.46%
Reverse repo transactions	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Bill of exchange	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Financial leasing	369	0.79%	137	0.40%	61	0.24%	24	0.06%
Payment cards loan	0	0.00%	277	0.44%	1,592	1.35%	2,721	1.63%
Consumption loans	13,853	7.17%	16,952	6.31%	16,470	3.80%	15,232	2.62%
Mortgage loans	89,661	6.26%	135,855	4.67%	175,379	3.14%	197,000	2.64%
Factoring	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other	17,964	6.81%	11,345	3.31%	10,036	1.50%	8,026	0.81%
<b>Total gross loans</b>	<b>267,798</b>	<b>6.12%</b>	<b>380,200</b>	<b>5.55%</b>	<b>490,205</b>	<b>4.51%</b>	<b>621,402</b>	<b>4.42%</b>

\* Data source: banking sector data – FCMC, www.fktk.lv

\*\* Loans to residents and non-residents, excluding transit loans

\*\*\* Loans to central and local governments are not broken down by type of loan, they are included in the Mortgage Bank's market share calculation

## 14.2.2. Market division of deposits with Mortgage Bank \*

### *Demand deposits\*\**

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field
State owned companies	787	1.79%	1,902	3.04%	985	0.72%	238	0.21%
Private companies	15,751	2.65%	23,166	2.59%	26,909	2.18%	29,162	2.61%
Individuals	19,806	3.01%	31,706	2.99%	45,946	2.96%	42,532	2.87%

### *Term deposits \*\**

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field
State owned companies	4,818	8.99%	5,222	8.56%	78,300	13.10%	5,372	3.21%
Private companies	9,886	5.01%	2,336	0.95%	12,761	5.66%	4,599	2.12%
Individuals	96,194	15.28%	101,277	12.65%	130,816	11.36%	158,053	10.00%

### *Total deposits \*\**

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field
State owned companies	5,605	5.74%	7,124	5.76%	11,243	5.22%	5,610	2.00%
Private companies	25,637	3.35%	25,502	2.27%	39,670	2.72%	33,761	2.53%
Individuals	116,000	9.01%	132,983	7.14%	176,762	6.54%	200,585	6.55%

### *Maturity profile of deposits \*\*\**

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field
On demand	36,672	2.83%	57,591	3.09%	74,526	2.51%	73,029	2.57%
Term deposits, of 1-6 months maturity	39,652	10.01%	32,117	6.11%	54,913	7.18%	69,059	6.29%
Term deposits, of 6-12 months maturity	49,697	15.17%	56,746	15.90%	83,041	17.13%	87,247	13.77%
Term deposits, long-term	32,525	16.01%	38,242	15.68%	40,383	14.13%	37,521	10.55%
<b>Total deposits</b>	<b>158,547</b>	<b>7.13%</b>	<b>184,697</b>	<b>6.18%</b>	<b>252,865</b>	<b>5.61%</b>	<b>266,856</b>	<b>5.42%</b>

\* Data source: statistics of the Bank of Latvia (www.bank.lv)

\*\* The total amount of deposits in these calculations does not match the amounts indicated within Mortgage Bank's annual reports, because these calculations do not include data on deposits of central government, local governments, financial institutions, public and religious organizations

\*\*\* The total amount of deposits in these calculations does not match the amounts indicated within Mortgage Bank's annual reports, because these calculations do not include data on deposits of central government, local governments, and non-residents

## 14.2.3. Market division of Mortgage Bonds

### Amount of Mortgage Bank's issued Mortgage Bonds in circulation \*

	31.12.2004		30.12.2005		31.12.2006		30.09.2007	
	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field	Amount ('000)	Proportion in field
<b>Volume of Mortgage Bonds</b>	<b>37,912</b>	<b>94.74%</b>	<b>41,837</b>	<b>78.20%</b>	<b>43,014</b>	<b>61.62</b>	<b>37,100</b>	<b>58.15%</b>

\* Data source: statistics figures of the LCD (www.lcd.lv).

\*\* Proportion in field: percentage of the total volume of Mortgage Bonds issued in the Republic of Latvia.

### Investors structure of Mortgage Bank's issued Mortgage Bonds

31.12.2004

31.12.2006

31.12.2006

	<u>% of the issued volume</u>	<u>% of the issued volume</u>	<u>% of the issued volume</u>
Banks	31.53	51.18	40.50
Insurance companies	14.36	14.76	17.52
Pension funds	12.22	10.01	13.92
Investment funds/ companies	24.77	7.83	9.96
Other enterprises	12.80	12.91	11.89
Physical entities	4.32	3.31	6.21

## 15. Organizational structure

### 15.1. Description of the Group incorporating the Issuer

The primary field of operation of the Group is provision of financial services to private and legal entities of Latvia. The largest enterprise in this Group is the JSC “Mortgage and Land Bank of Latvia”, providing services of a credit institution. The Bank is not materially dependent on other companies in the group.

Commercial enterprise title	Registration number	Address	Operation areas	Share capital thsd. (Ls)	Share of fixed capital (%)	Justification for inclusion in the Group
SIA "Hipotēku Bankas nekustamā īpašuma aģentūra"	000342689	Elizabetes iela 41/43, Rīga LV 1010, Latvija	Realty operations	50	100	MS*
SIA "Hipolīzings"	000361632	Maskavas iela 240, Rīga, LV-1063	Leasing	300	100	MS*
SIA “Risku investīciju sabiedrība”	000395244	Dome square 4, Rīga, LV-1977, Latvia	Venture investments into company capital	500	100	MS*
KS “Mazo un vidējo komersantu atbalsta fonds”	000368132	Skolas ielā 25/1k, Rīgā, LV 1010	Venture capital investments	156	47.62	KS**

\* MS – subsidiary.

\*\* KS – joint venture

SIA “Risku investīciju sabiedrība” (LLC “Venture investment company”) was registered in the Enterprise Register of the Republic of Latvia on September 4, 2007.

### 15.2. Information on trends

Operational and financial prospects of Mortgage Bank have not substantially changed for the bad since the publishing day of the last audited financial report.

Moreover, Mortgage Bank has not discovered trends or factors of uncertainty. It does not possess any information on claims, liabilities or developments that may affect prospects of the Bank within the current or next financial years.

## 16. Profit expectancy and evaluations

Mortgage Bank does not find it necessary to include information on profit expectancy and evaluations in the Base prospectus.

## 17. Administration, management and supervisory structures

Administration, management and supervisory institutions of Mortgage Bank are Shareholders' Meeting, Council and Board.

### 17.1. Board of Mortgage Bank

Name, surname	Personal ID code	Position	Address	Duties at the bank
<b>Inesis Feiferis</b>	140849-10148	Chairman of the Board, President	Medņu iela 37, Jūrmala, LV-2008	Ensure operation of Legal department, President's bureau, Personnel section and Support programs department.
<b>Rolands Paņķo</b>	271165-10505	Member of the Board, Deputy Chairman of the Board	Kuldīgas iela 50 – 5, Rīga, LV-1046	Ensure operation of Treasury department, Plans and financial analysis department, Privatization servicing department, Technical and utility support department.
<b>Aija Laicāne</b>	150860-11570	Member of the Board	Kuldīgas iela 50 – 4, Rīga, LV-1046	Chief accountant, ensure operation of Cash department, Accounting department, Quality management department, Application software management department.
<b>Jēkabs Krieviņš</b>	310369-10041	Member of the Board	V. Skubiņa iela 12, Priekuļu pag., Cēsu raj., LV-4126	Ensure operation of Sales department, Lending department, Marketing department, Corporate transactions department.
<b>Andris Riekstiņš</b>	160160-12978	Member of the Board	Māras iela 3, Rīgas rajons, Salaspils, LV-2169	Ensure operation of Risk management department and Security department

### 17.2. Council of Mortgage Bank

Name, surname	Personal ID code	Position	Address
<b>Gundega Šulca Andris Liepiņš Jānis Šnore</b>	280274-11358	Chairperson of the Council	Salaspils iela 12 k-4, dz.63, Rīga, LV-1057
<b>Bāne Baiba</b>	092169-11813	Deputy Chairman of the Council	Kr. Valdemāra iela 75 - 24, Rīga
<b>Vija Gēme Paševica Baiba Ratniece Dace Strautiņa Iveta</b>	080871-11228	Member of the Council	Čiekurkalna 2. šķērslīnija 4/1 – 34, Rīga
<b>Bāne Baiba</b>	091166-10136	Member of the Council	Dzelzavas iela 61 - 44, Rīga
<b>Vija Gēme Paševica Baiba Ratniece Dace Strautiņa Iveta</b>	180148-11839	Member of the Council	“Vijolītes”, Rīgas raj., Garkalnes pag., p.n. Bukulti, LV-2124
<b>Baiba Ratniece Dace Strautiņa Iveta</b>	011263-10907	Member of the Council	Sergeja Eizenšteina iela 63 – 23, Rīga
<b>Dace Strautiņa Iveta</b>	100261-10726	Member of the Council	Raunas iela 58/2 - 21, Rīga
<b>Strautiņa Iveta</b>	100278-12762	Member of the Council	Ģertrūdes iela 10/12 – 13, Rīga

### 17.3. Conflicts of interest of the Board and Council members of Mortgage Bank

Board and Council member of Mortgage Bank do not conduct activities outside Mortgage Bank causing conflicts of interest between their obligations towards Mortgage Bank and their private interests or other commitments.

## 18. Shareholder of Mortgage Bank

Shareholder of Mortgage Bank by 100% is the State of Latvia.

The holder of the State's capital shares is the Ministry of Finance of the Republic of Latvia. The representative of the holder of the State's capital shares is Ms. Irēna Krūmane, the State Secretary of the Ministry of Finance of the Republic of Latvia.

## 19. Financial information on the Issuer's assets and liabilities, financial conditions, profit and loss

### 19.1. Financial reports

Information included in this part of the Base Prospectus is taken from the audited financial statements of 2006, and approved in Mortgage Bank's shareholder's meeting.

#### 19.1.1. PROFIT AND LOSS STATEMENT

The audited profit and loss statements for 2006 and 2005

	2006		2005	
	Group	Bank	Group	Bank
Interest income	32,928	31,644	23,640	22,926
Interest expense	(16,297)	(16,174)	(11,017)	(11,017)
Net interest income	<b>16,631</b>	<b>15,470</b>	<b>12,623</b>	<b>11,909</b>
Commission fee income	3,533	3,483	2,976	2,975
Commission fee expense	(640)	(618)	(511)	(503)
Net fee and commission income	<b>2,893</b>	<b>2,865</b>	<b>2,465</b>	<b>2,472</b>
Dividend income	1	-	-	-
Net securities and foreign exchange trading income	1,255	1,272	1,582	1,569
Other operating income	3,941	2,978	3,312	3,248
Staff Costs	(7,606)	(6,924)	(5,772)	(5,514)
Administrative Expenses	(6,557)	(6,167)	(5,327)	(5,153)
Depreciation and amortisation	(2,189)	(2,124)	(2,071)	(2,049)
Provision for impairment losses	(1,159)	(1,159)	(1,284)	(1,284)
Profit before income tax	<b>7,210</b>	<b>6,211</b>	<b>5,528</b>	<b>5,198</b>
Corporate income tax	(1,204)	(1,027)	(857)	(803)
Profit for the reporting period	<b>6,006</b>	<b>5,184</b>	<b>4,671</b>	<b>4,395</b>

## 19.1.2. BALANCE SHEET

Audited balance as of December 31, 2006 and December 31, 2005.

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
<b>Assets</b>				
Cash and balances with Central Bank	58,007	58,006	15,843	15,843
Trading securities	2,852	2,852	2,269	2,269
Other financial assets at fair value through profit or loss	-	-	8,277	8,277
Investment securities – available for sale	50,174	50,174	16,238	16,238
Due from credit institutions	72,021	71,949	20,804	20,768
Derivative financial instruments	2	2	-	-
Loans to customers	499,484	489,250	379,576	378,651
Investment properties	2,253	2,253	2,139	2,139
Investment in subsidiaries and associated undertakings	422	424	174	474
Intangible assets	1,314	1,264	1,345	1,306
Liabilities and Shareholders Equity	8,134	7,822	8,079	7,974
Other liabilities	2,748	622	758	672
Deferred expenses and accrued income	605	512	706	687
<b>Total assets</b>	<b>698,016</b>	<b>685,130</b>	<b>456,208</b>	<b>455,298</b>
<b>Liabilities</b>				
Due to credit institution	296,229	285,566	152,072	152,072
Customer deposits	274,043	274,185	194,324	194,345
Derivative financial instruments	20	20	-	-
Transit funds	2,869	2,869	3,160	3,160
Mortgage bonds	43,211	43,211	33,627	33,627
Other liabilities	5,160	4,604	1,682	1,290
Deferred income and accrued expenses	1,778	1,326	1,152	972
Current income tax liability	796	569	363	305
Deferred Tax Liabilities	899	890	970	968
Subordinated debt	13,302	13,302	13,302	13,302
<b>Total liabilities</b>	<b>638,307</b>	<b>626,542</b>	<b>400,652</b>	<b>400,041</b>
<b>Shareholders equity</b>				
Share Capital	48,513	48,513	48,513	48,513
Reserve Capital	2,524	2,063	2,063	2,063
Revaluation deficit on available-for-sale investments	(615)	(615)	(35)	(35)
Retained earnings	9,287	8,627	5,015	4,716
<b>Total equity and reserves</b>	<b>59,709</b>	<b>58,588</b>	<b>55,556</b>	<b>55,257</b>
<b>Total liabilities</b>	<b>698,016</b>	<b>685,130</b>	<b>456,208</b>	<b>455,298</b>
<b>Off balance sheet items</b>				
Contingent liabilities	11,891	11,891	4,605	4,605
Financial commitments	36,077	40,453	25,033	26,915

### 19.1.3. CASH FLOW STATEMENT

The audited cash flow statements for 2006 and 2005

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
<b>Cash flows from operating activities</b>				
Profit before tax	7,210	6,211	5,528	5,198
Depreciation and amortisation	2,189	2,124	2,071	2,049
Increase / (decrease) in provision for impairment losses	(787)	(787)	288	288
(Profit) / loss from foreign exchange revaluation	(105)	(122)	155	168
(Profit) / loss from sale of property and equipment	18	7	(13)	(13)
Increase in deferred income and accrued expenses	555	354	88	(61)
(Increase) / decrease in deferred expenses and accrued income	166	175	(172)	(155)
(Increase) in other assets	(207)	(583)	(1,744)	(1,692)
Increase in other liabilities	3,196	3,295	616	292
<b>Increase in cash and cash equivalents from operating activities before changes in assets and liabilities</b>	<b>12,235</b>	<b>10,674</b>	<b>6,817</b>	<b>6,074</b>
(Increase) in balances due from credit institutions	(6,156)	(6,156)	(90)	(90)
Increase of loans issued	(122,466)	(109,83)	(112,171)	(111,55)
Increase in trading securities	(583)	(583)	773	773
Increase in balances due to credit institutions	140,661	129,998	86,427	86,427
Increase in balances due to customers	80,394	79,840	28,973	28,974
Decrease in transit funds	(291)	(291)	(323)	(323)
Increase / (decrease) in mortgage bonds issued	9,584	9,584	(4,583)	(4,583)
<b>Increase in cash and cash equivalents from operating activities</b>	<b>113,378</b>	<b>113,230</b>	<b>5,823</b>	<b>5,697</b>
Corporate income tax paid	(841)	(841)	(196)	(196)
<b>Cash flows from investing activities</b>				
Increase in investment securities	(25,659)	(25,659)	(16,329)	(16,329)
Purchases of property and equipment	(2,048)	(1,967)	(2,022)	(1,887)
Proceeds from property and equipment disposal	67	30	63	63
Acquisition of investments in associated entities	-	50	(55)	(55)
<b>Cash and cash equivalents used in investing activities</b>	<b>(27,640)</b>	<b>(27,546)</b>	<b>(18,343)</b>	<b>(18,208)</b>
<b>Cash flows from financing activities</b>				
Increase in share capital	-	-	25,693	25,693
Dividend paid	(1,273)	(1,273)	(462)	(462)
<b>Cash and cash equivalents used in financing activities</b>	<b>(1,273)</b>	<b>(1,273)</b>	<b>25,231</b>	<b>25,231</b>
<b>Increase in cash and cash equivalents</b>	<b>83,624</b>	<b>83,570</b>	<b>12,515</b>	<b>12,524</b>
Cash and cash equivalents at the beginning of the period	34,224	34,188	21,864	21,832
Effect of exchange rates on cash and cash equivalents	105	122	(155)	(168)
<b>Cash and cash equivalents at the end of the period</b>	<b>117,953</b>	<b>117,880</b>	<b>34,224</b>	<b>34,188</b>

#### 19.1.4. STATEMENT OF CHANGES IN BANK'S EQUITY AND RESERVES

Changes in the equity and reserves of the Group are presented as follows:  
(all amounts in thousands of Lats)

	Share Capital	Reserve Capital	Revaluation deficit on available-for-sale investments	Retained earnings	Total equity
<b>Previously reported balance as at 31 December 2004</b>	<b>22,820</b>	<b>2,063</b>	-	<b>845</b>	<b>25,728</b>
<i>Change in accounting policies (Note 1)</i>	-	-	-	(39)	(39)
<b>Restated balance as at 31 December 2004</b>	<b>22,820</b>	<b>2,063</b>	-	<b>806</b>	<b>25,689</b>
Distribution of profit – payment for use of state capital	-	-	-	(462)	(462)
Shares issued	25,693	-	-	-	25,693
Net loss on available for sale investments	-	-	(35)	-	(35)
Profit for the reporting period	-	-	-	4,671	4,671
<b>Previously reported balance as at 31 December 2005</b>	<b>48,513</b>	<b>2,063</b>	<b>(35)</b>	<b>5,015</b>	<b>55,556</b>
Distribution of profit – payment for use of state capital	-	-	-	(1,273)	(1,273)
Capitalisation of reserves	-	461	-	(461)	-
Net loss on available for sale investments	-	-	(580)	-	(580)
Profit for the reporting period	-	-	-	6,006	6,006
<b>Previously reported balance as at 31 December 2006</b>	<b>48,513</b>	<b>2,524</b>	<b>(615)</b>	<b>9,287</b>	<b>59,709</b>

Changes in the equity and reserves of the Bank are presented as follows:  
(all amounts in thousands of Lats)

	Share Capital	Reserve Capital	Revaluation deficit on available-for-sale investments	Retained earnings	Total equity
<b>Previously reported balance as at 31 December 2004</b>	<b>22,820</b>	<b>2,063</b>	-	<b>783</b>	<b>25,666</b>
Distribution of profit – payment for use of state capital	-	-	-	(462)	(462)
Shares issued	25,693	-	-	-	25,693
Net loss on available for sale investments	-	-	(35)	-	(35)
Profit for the reporting period	-	-	-	4,395	4,395
<b>Previously reported balance as at 31 December 2005</b>	<b>48,513</b>	<b>2,063</b>	<b>(35)</b>	<b>4,716</b>	<b>55,257</b>
Distribution of profit – payment for use of state capital	-	-	-	(1,273)	(1,273)
Net loss on available for sale investments	-	-	(580)	-	(580)
Profit for the reporting period	-	-	-	5,184	5,184
<b>Previously reported balance as at 31 December 2006</b>	<b>48,513</b>	<b>2,063</b>	<b>(615)</b>	<b>8,627</b>	<b>58,588</b>

#### 19.1.5. 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 Group's international risk based capital adequacy ratio as at 31 December 2006 was 13.3%, 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, the Group's risk based capital adequacy ratio was 12.5%. 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.

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 utilized in the capital adequacy ratio.

The Group's and the Bank's calculation of the capital adequacy ratio according the Finance and Capital Market Commissions guidelines is provided in the table below:

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Equity to be utilised in the capital adequacy ration	69,055	67,984	65,621	65,271
Weighted assets and off-balance sheet items	550,550	540,169	387,634	386,949
Capital adequacy ratio	<b>12.5%</b>	<b>12.6%</b>	<b>16.9%</b>	<b>16.9%</b>

The Group's and the Bank's calculation of the capital adequacy ratio according to Basle Capital Accord Guidelines is provided in the table below:

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Equity to be utilised in the capital adequacy ration	70,984	69,863	66,966	66,577
Weighted assets and off-balance sheet items	533,334	520,506	399,938	399,252
Capital adequacy ratio	<b>13.3%</b>	<b>13.4%</b>	<b>16.7%</b>	<b>16.7%</b>

#### 19.1.6. Basis of presentation

19.1.6.1. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements are prepared under the historical cost convention as modified by the fair valuation financial assets held at fair value through profit or loss, financial assets held as available-for-sale, of derivative financial instruments, and investment properties.

The preparation of financial statements in accordance with International Financial Reporting Standards 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 accompanying financial statements are reported in thousands of lats, unless otherwise stated.

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2006 are consistent with those used in the annual financial statements for the year ended 31 December 2005, except for the following:

- In these 2006 financial statements, certain income from lending fees, which was previously shown under fee and commission income, has been included under interest income in order to be more consistent with the policy for commissions

received or incurred in respect of financial assets or funding. The effect of the change is to increase interest income and reduce fee and commission income by LVL 1,853 thousand (LVL 2,065 thousand) for the Group and LVL 1,794 thousand (LVL 1,671 thousand) for the Bank.

In consolidated financial statements classification of operating lease contracts of the subsidiary has been changed as in accordance with IAS 17 “Leases” these contracts should have been classified as finance leases. The subsidiary also changed accounting policy with respect to recognition of fee income, which was applied retrospectively. These changes had the following effect (in thousand LVL):

<b>Effect on periods prior to 2005:</b>		
<b>Net decrease of net profit in the result of change of fee recognition policy and classification of lease contracts</b>	39	
<b>Effect on 2005:</b>		
<b>Reclassification of operating lease contracts</b>		
<b>Increase of loans issued</b>	4,922	
<b>Decrease of fixed assets</b>		5,658
<b>Decrease of deferred income and accrued expenses</b>	736	
	5,658	5,658
<b>Net decrease of net profit in the result of change of fee recognition policy and classification of lease contracts</b>	51	

#### 19.1.6.2. Consolidation and investments in subsidiaries

Subsidiary undertakings, in which the Bank, directly or indirectly, has power to exercise control over financial and operating policies, and where operating volumes are substantial, have been consolidated, by adding together similar types of assets, liabilities, income and expenses.

For the purposes of consolidation, all intercompany transactions, balances and unrealised surpluses and deficits on transactions between the Group companies have been eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

#### *Subsidiaries*

Investments in subsidiaries are accounted for under the cost method in the unconsolidated financial statements of the Bank. The Bank recognizes income from the investment only to the extent that the Bank receives dividends from the accumulated profits of the subsidiaries arising after the date of acquisition.

#### *Investments in Associate Enterprises*

Associates are all entities over which the Group and the Bank has significant influence but not control. Investments in associates are accounted for under the cost method.

#### 19.1.6.3. 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 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.

The applicable rates for the principal currencies held by the Group and the Bank were as follows:

as of 31 December 2006

1 EUR = LVL 0.702804

1 USD = LVL 0.536000

1 GBP = LVL 1.048000

as of 31 December 2005

1 EUR = LVL 0.702804

1 USD = LVL 0.593000

1 GBP = LVL 1.021000

#### 19.1.6.4. Income and expense recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective rate interest method.

Commissions received or incurred in respect of long-term assets or funding are deferred and recognized as an adjustment to the effective interest rate on the asset or liability.

Other commissions and fees are credited and/or charged to the income statement as earned/incurred.

#### 19.1.6.5. Trading and Investment Securities

Trading and investment securities comprise securities of the following categories:

- *Trading securities* comprise fixed income securities and equity shares held by the Bank for trading purposes. They are accounted for at fair value with all gains and losses from revaluation and sale reported in the income statement.
- *Investment securities available for sale* comprise treasury bills and other fixed income securities held by the Bank 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. They are stated at fair value with all gains and losses from revaluation recognized in equity, through the statement of changes in equity, except for impairment losses. Derecognizing the assets in balance, the cumulative gain or loss previously recognized in equity, is recognized in the income statement.
- *Financial assets at fair value through profit or loss* comprise fixed income securities held by the Bank for liquidity purposes which have been designated when initially recognized as a financial asset held at fair value through profit or loss. They are accounted for at fair value with all gains and losses from revaluation and sale reported in the income statement.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognized at settlement date, which is the date when the asset is delivered to or transferred by the Group and the Bank. Any change in the fair value of the asset during the period between the trade date and the settlement date is recognized in the income statement in respect of available-for-sale assets.

#### 19.1.6.6. Loans and receivables

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortized cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans are recognized in statements of Group and Bank when cash is advanced to borrowers.

Management considers risks for all loans to determine the provision for loan impairment and possible losses.

Provisions for individual loan impairment are established if there is objective evidence that it will not be possible to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being determined as the present value of expected cash flows, including amounts recoverable from guarantees and collateral.

In addition to provisions for individual loans, provisions for homogeneous groups of loans. Homogeneous groups of loans are based on similarities of credit risk involved, loan size, quality and maturity.

The provision for loan impairment losses for those loans included within homogeneous groups have been estimated based upon historical patterns of losses in each group, the historic pattern of timeliness of payments and reflecting the current economic climate in which the borrowers operate.

The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Management of the Group and the Bank have made their best estimates of losses, based on objective evidence of impairment and believe those estimates presented in the financial statements are reasonable in light of available information. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require an adjustment to the carrying amount of the asset or liability affected.

#### 19.1.6.7. Intangible assets

Acquired computer software and licenses are recognized as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortized on the basis of their expected useful lives (5 years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

#### 19.1.6.8. Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation.

Depreciation is provided using the straight-line method to write off the cost of each asset to its residual value over the estimated useful life of the asset. Gains and losses on disposals of property and equipment are recognized in the income statement in the period of disposal. The annual rates of fixed asset depreciation are:

<u>Category</u>	<u>Depreciation rate</u>
Buildings	2% p.a.
Furniture and fittings	10 - 20% p.a.
Computers and equipment	10 - 33 % p.a.
Vehicles	20 % p.a.
Leasehold improvements	over the term of the lease agreements

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Repairs and maintenance costs are charged to the income statement as incurred. Property and equipment are periodically reviewed for impairment.

#### 19.1.6.9. Investment properties

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the companies in the Group or otherwise held for sale. Property held under operating lease is classified as investment property if, and only if, it meets the definition of an investment property.

Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections.

Changes in the fair value of investment property are recorded in the income statement.

#### 19.1.6.10. Leases - when the Group is a lessor

Finance lease receivables at commencement of the lease are recognised at the lower of the fair value of the leased asset or the present value of minimum lease payments. The net investment in finance leases is recorded in the balance sheet net of taxes and the related provision for impairment. 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.

#### 19.1.6.11. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. 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 rate method.

#### 19.1.6.12. Derivative financial instruments

Derivative financial instruments including foreign currency swaps are initially recognised at cost and subsequently are remeasured 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 liabilities when the fair value is negative. Changes in the fair value of derivatives are reported in the income statement.

#### 19.1.6.13. 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 tax legislation of the Republic of Latvia.

Deferred tax is provided in full, using 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 is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, revaluation of investment properties, as well tax losses carried forward. Where an overall deferred taxation asset

arises, it is only recognised in the financial statements where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### 19.1.6.14. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, deposits with and from other credit institutions with remaining maturity of 3 months or less.

#### 19.1.6.15. Mortgage bonds coverage register

The coverage register of mortgage bonds at the Bank is maintained in accordance with the legislation of the Republic of Latvia, including regulatory documents covering mortgage transactions.

The Bank manages mortgage claims included in the coverage register of mortgage bonds according to their remaining value, as well as substitute coverage separately from other assets.

The mortgage claims included in the coverage register of mortgage bonds according to their remaining value are used to ensure that those liabilities that result from the issue of mortgage bonds are met.

Mortgage bonds in circulation according to their total face value are fully covered with mortgage loans. The interest expense on mortgage bonds is covered with the interest income from mortgage loans of the same amount.

#### 19.1.6.16. Provisions

Provisions are recognised when the Group or the Bank has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued and other off balance sheet items.

#### 19.1.6.17. 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.

#### 19.1.6.18. Fair values of financial assets and liabilities

Fair value is the amount for which assets could be exchanged, or liability settled, between knowledgeable, willing parties in an arms length transaction.

Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate.

Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

#### 19.1.6.19. 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.

#### 19.1.6.20. Property held for resale

Property is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Property held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

#### 19.1.6.21. Comparatives

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

#### 19.1.6.22. Adoption of new or revised standards and interpretations and new accounting pronouncements

Certain new IFRSs became effective for the Group from 1 January 2006, applicable to the processing of the Group's financial reports. Listed below are those new or amended standards or interpretations, which are relevant to the Group's operations and the nature of their impact on the Group's accounting policies

- (a) 4. IFRIC 4, Determining whether an arrangement contains a lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of the adoption of IFRIC 4.
- (b) 39. IAS 39 (amendment) – *The Fair Value Option (effective from 1 January 2006)*. 39. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognized in profit and loss ("fair value through profit and loss"). The amendment changes the definition of financial instruments at "fair value through profit and loss" and restricts the ability to designate financial instruments as part of this category. The adoption of the amendment to the standard has not required the Group to change its accounting practices in respect of this category.
- (c) IAS 39 (amendment) – *Financial Guarantee Contracts (effective from 1 January 2006)*. As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at balance sheet date. This amendment did not have a significant effect on these financial statements.

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

- (a) 7. IFRS 7, *Financial Instruments: Disclosures (effective from 1 January 2007)*. The IFRS requires disclosures to improve the information about financial instruments with an emphasis on quantitative aspects of risk exposures and the methods of risk

management. 7. IFRS 7 will require increased more quantitative sensitivity analysis and disclosure in the financial statements in relation to the Group's holdings of financial instruments.

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

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

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

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

## 19.1.7. Interpretation of Balance-sheet items

### 19.1.7.1. Interest income

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
<b>Interest income:</b>				
- interest on balances due from credit institutions	1,733	1,733	599	599
- interest on loans to customers	29,791	28,507	22,291	21,577
- interest on investments in securities	1,404	1,404	750	750
	<b>32,928</b>	<b>31,644</b>	<b>23,640</b>	<b>22,926</b>
Cash flow from interest received	31,500	30,233	23,522	22,808

### 19.1.7.2. Interest expense

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
<b>Interest expense:</b>				
- interest on balances due to credit institutions	6,731	6,606	2,810	2,810
- interest on current and deposit accounts	6,507	6,508	5,233	5,233
- interest on transit funds	130	130	118	118
- interest on subordinated liabilities	765	765	765	765
- interest on mortgage bonds issued	2,125	2,125	2,040	2,040
- other interest expense	39	39	51	51
	<b>16,297</b>	<b>16,174</b>	<b>11,017</b>	<b>11,017</b>
Cash flow from interest paid	15,185	15,062	10,473	10,473

### 19.1.7.3. Commission fee income

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
<b>Fee and commission income:</b>				
- from lending activities	1,505	1,452	1,246	1,224
- from money transfers and account servicing	1,266	1,292	1,143	1,165
- from payment cards	569	569	317	317
- from securities accounts	57	57	60	60
- from insurance fiduciary activities	87	80	68	68
- other fee and commission income	49	33	142	141
	<b>3,533</b>	<b>3,483</b>	<b>2,976</b>	<b>2,975</b>

#### 19.1.7.4. Commission fee expense

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
Fee and commission expense:				
- for account services	207	207	229	229
- for payment cards	312	312	190	190
- for transactions with securities	40	40	38	38
- other fee and commission income	81	59	54	46
	<b>640</b>	<b>618</b>	<b>511</b>	<b>503</b>

#### 19.1.7.5. Net securities and foreign exchange trading income

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
Profit from trading securities	570	570	656	656
Profit / (loss) from securities designated at fair value through profit or loss	(250)	(250)	311	311
Profit from dealing with currency exchange and revaluation of foreign currency positions	935	952	615	602
	<b>1,255</b>	<b>1,272</b>	<b>1,582</b>	<b>1,569</b>

#### 19.1.7.6. Other operating income

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
Income from property privatisation services	443	443	299	299
Income from recovery of the State Property Privatisation Fund loans	16	16	24	24
Penalty fees received on overdue loan repayments	453	376	588	570
Compensations	625	625	75	75
Revaluation of investment property	114	114	1,309	1,309
Other operating income	2,290	1,404	1,017	971
	<b>3,941</b>	<b>2,978</b>	<b>3,312</b>	<b>3,248</b>

#### 19.1.7.7. Staff Costs

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
Remuneration to the Council and the Board	314	275	273	241
Remuneration to staff members	5,863	5,350	4,411	4,235
Social security contributions	1,429	1,299	1,088	1,038
	<b>7,606</b>	<b>6,924</b>	<b>5,772</b>	<b>5,514</b>

During the reporting year the Bank employed on average 608 staff members (2005: 589).

#### 19.1.7.8. Administrative Expenses

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
Training and other staff expense	520	491	404	399
Equipment and premises maintenance expense	1,767	1,679	1,652	1,602
Information system and communication expense	1,379	1,317	1,241	1,213
Advertising and public relations	1,429	1,338	817	761
Professional services	480	459	481	471
Property tax	56	56	44	44
Write off of fixed assets	34	23	22	22
Payments to the deposit guarantee fund	385	385	310	310
Other expenses	507	419	356	331
	<b>6,557</b>	<b>6,167</b>	<b>5,327</b>	<b>5,153</b>

### 19.1.7.9. Provision for impairment losses

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
<b>Provision expense:</b>				
- provisions for loans	1,887	1,887	2,344	2,344
- provisions for other assets	34	34	84	84
- provisions for investments in subsidiaries and associated entities	50	50	-	-
- provisions for off balance sheet liabilities	39	39	-	-
- provisions for accrued interest income receivable	161	161	331	331
	<b>2,171</b>	<b>2,171</b>	<b>2,759</b>	<b>2,759</b>
<b>Release of provision:</b>				
- provisions for loans	(748)	(748)	(1,272)	(1,272)
- provisions for other assets	(26)	(26)	-	-
- provisions for accrued interest income receivable	(238)	(238)	(203)	(203)
	<b>(1,012)</b>	<b>(1,012)</b>	<b>(1,475)</b>	<b>(1,475)</b>
<b>Total provision for impairment losses - expense</b>	<b>1,159</b>	<b>1,159</b>	<b>1,284</b>	<b>1,284</b>

### 19.1.7.10. Corporate Income Tax

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
Corporate income tax	1,275	1,105	557	501
Deferred tax (see Note 25)	(71)	(78)	300	302
	<b>1,204</b>	<b>1,027</b>	<b>857</b>	<b>803</b>

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to profit before taxation:

(all amounts in thousands of Lats)

	2006		2005	
	Group	Bank	Group	Bank
Profit before tax	<b>7,210</b>	<b>6,211</b>	<b>5,528</b>	<b>5,198</b>
Tax calculated at 15%	1,082	932	829	780
Expenses not deductible for tax purposes, net	122	95	28	23
Tax expense for the year ended 31 December	<b>1,204</b>	<b>1,027</b>	<b>857</b>	<b>803</b>

### 19.1.7.11. Cash and balances with Central Bank

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Cash	5,678	5,677	4,381	4,381
Balances with the Bank of Latvia	52,329	52,329	11,462	11,462
	<b>58,007</b>	<b>58,006</b>	<b>15,843</b>	<b>15,843</b>

Balances with the Bank of Latvia represent funds held on the Bank's clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank's average monthly correspondent account total balance should not be less than the amount of the statutory reserve which is calculated by discounting the average of certain liabilities over a monthly period. 2006. The Bank was in compliance with this regulation during 2006.

### 19.1.7.12. Trading and Investment Securities

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
<b>Trading securities</b>				
Latvian Treasury bills and government bonds	379	379	1,219	1,219
Non-OECD government bonds	1,238	1,238	121	121
Latvian corporate bonds	95	95	94	94
OECD corporate bonds	721	721	722	722
Non-OECD corporate bonds	274	274	-	-
Equity shares in Latvian corporate entities	127	127	113	113
Equity shares in non-OECD corporate entities	18	18	-	-
<b>Total trading securities</b>	<b>2,852</b>	<b>2,852</b>	<b>2,269</b>	<b>2,269</b>
<b>Securities at fair value through profit or loss</b>				
Latvian Treasury bills and government bonds	-	-	8,277	8,277
<b>Total securities at fair value through profit or loss</b>	<b>-</b>	<b>-</b>	<b>8,277</b>	<b>8,277</b>
<b>Securities available-for-sale</b>				
Latvian Treasury bills and government bonds	13,362	13,362	6,695	6,695
OECD government bonds	2,207	2,207	1,162	1,162
Non-OECD government bonds	6,682	6,682	3,125	3,125
Non-OECD corporate bonds	14,605	14,605	-	-
Latvian corporate bonds	13,318	13,318	5,256	5,256
<b>Total securities available-for-sale</b>	<b>50,174</b>	<b>50,174</b>	<b>16,238</b>	<b>16,238</b>
<b>Total trading and investment securities</b>	<b>53,026</b>	<b>53,026</b>	<b>26,784</b>	<b>26,784</b>

The average yield on investment securities as at 31 December 2006 was 6.12% (2005: 4.22%).

### 19.1.7.13. Investment properties

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Carrying amount at 1 January	2,139	2,139	830	830
Gains on fair valuation	114	114	1,309	1,309
Carrying amount at 31 December	<b>2,253</b>	<b>2,253</b>	<b>2,139</b>	<b>2,139</b>

Investment properties include real estate at Jēkaba iela 6/8, Riga, with a carrying amount of LVL 2,253 thousand as at 31 December 2006 (LVL 2,139 thousand as at 31 December 2005).

Investment properties are held at fair value based on valuations made by independent evaluators who have up-to-date experience in valuing real estate in the respective location and category and who hold an appropriate professional qualification for real estate valuation. The valuations are made on the basis of recent comparative data in the local market and/or on the basis of rental returns discounted at an appropriate rate.

### 19.1.7.14. Due from other credit institutions

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Due to credit institutions registered in OECD area	35,565	35,565	3,326	3,326
Due to credit institutions registered in Latvia	33,031	32,959	17,441	17,405
Due from credit institutions registered in other countries	3,425	3,425	37	37
	<b>72,021</b>	<b>71,949</b>	<b>20,804</b>	<b>20,768</b>

At 31 December 2006 the Bank had correspondent accounts with 20 bank (2005: 21 bank).

The average interest rate on balances due from credit institutions as at 31 December 2006 was 3.94% (2005: 3.87%).

#### 19.1.7.15. Derivative financial instruments

The Group and the Bank use the following derivative financial instruments:

**Currency swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies.

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

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

	Relative Contract amount	31/12/06 Fair value	
		Assets	Liabilities
Currency swaps	<b>7,028</b>	2	20

#### 19.1.7.16. Loans to customers

(a) Granted loans by type of borrower  
(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Local government	957	755	1,049	908
State owned companies	362	362	284	284
Financial institutions	349	46,803	-	28,156
Private companies	304,519	255,098	239,047	213,578
Individuals	190,180	183,382	138,780	135,371
Management / staff	4,516	4,279	3,204	3,148
Loans to public and religious organizations	712	699	481	476
	<b>501,595</b>	<b>491,378</b>	<b>382,845</b>	<b>381,921</b>
Accrued interest	1,488	1,471	1,093	1,092
Provisions for impairment losses on loans	(3,599)	(3,599)	(4,362)	(4,362)
<b>Total net loans</b>	<b>499,484</b>	<b>489,250</b>	<b>379,576</b>	<b>378,651</b>

(b) Analysis of loans by type

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Commercial loans	202,146	198,964	143,337	148,713
Consumer loans	52,372	45,337	36,942	30,642
Mortgage loans	167,197	167,197	118,939	118,939
Agricultural development loans	19,682	19,682	15,938	15,938
Rural development loans	1,167	1,167	1,713	1,713
Small and Medium Enterprises Development loans	38,842	38,842	41,497	41,497
Residential property development loans	16,327	16,327	24,021	24,021
Other loans	3,862	3,862	458	458
<b>Total</b>	<b>501,595</b>	<b>491,378</b>	<b>382,845</b>	<b>381,921</b>

(c) Analysis of movement in provisions for loan impairment losses	31/12/06		31/12/05	
	Group	Bank	Group	Bank
As at beginning of the year	4,362	4,362	4,094	4,094
Increase of provisions	2,048	2,048	2,675	2,675
Release from provisions	(986)	(986)	(1,475)	(1,475)
Adjustment (foreign exchange fluctuation)	(76)	(76)	104	104
Write-off of loans	(1,749)	(1,749)	(1,036)	(1,036)
As at end of the year	<b>3,599</b>	<b>3,599</b>	<b>4,362</b>	<b>4,362</b>

(d) Loans by their maturity profile	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Overdue	1,969	1,830	2,199	2,199
Falling due within:				
Falling due within: 1 month				
1 – 3 months	12,348	11,069	9,008	8,183
3 – 6 months	22,050	19,411	15,758	14,220
6 – 12 months	24,695	20,483	21,762	19,198
1 – 5 years	49,462	41,139	34,881	30,274
more than 5 years	204,305	212,610	162,617	171,231
Total gross loans	<b>503,083</b>	<b>492,849</b>	<b>383,938</b>	<b>383,013</b>
Less provision for loan impairment loss	(3,599)	(3,599)	(4,362)	(4,362)
Total net loans to customers	<b>499,484</b>	<b>489,250</b>	<b>379,576</b>	<b>378,651</b>

(e) Profile by by interest accrual recognition principle	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Loans where the original terms of payment are met	498,988	488,893	380,243	379,318
Loans where interest or principal is more than 90 days overdue	4,095	3,956	3,695	3,695
Total gross loans	<b>503,083</b>	<b>492,849</b>	<b>383,938</b>	<b>383,013</b>
Less provision for loan impairment loss	(3,599)	(3,599)	(4,362)	(4,362)
Total net loans to customers	<b>499,484</b>	<b>489,250</b>	<b>379,576</b>	<b>378,651</b>

The loans to customers include finance lease receivables. As at 31 December 2006 finance lease receivables may be analysed as follows:

(all amounts in thousands of Lats)	31/12/06	31/12/05
	Group	Group
Falling due within: 1 month	1,734	823
1 – 3 months	3,040	1,538
3 – 6 months	4,214	2,564
6 – 12 months	8,329	4,608
1 – 5 years	38,510	19,542
more than 5 years	2,170	5
Total	<b>57,997</b>	<b>29,080</b>

The average interest rate for the loan portfolio as at 31 December 2006 was 6.41% per annum (5.72% at 31 December 2005). 5.72%).

### 19.1.7.17. Investment in subsidiaries and associated undertakings

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

(all amounts in thousands of Lats)	Share capital	Total equity and reserves	Bank's share (%)	Investment value 31/12/06	Investment value 31/12/05
SIA "Hipolīzings"	645	1,218	100%	300	300
SIA "Hipotēku bankas finanšu konsultāciju centrs"	-	-	-	-	50
SIA "Hipotēku bankas nekustamā īpašuma aģentūra"	50	505	100%	50	50
KS „Mazo un vidējo komersantu atbalsta fonds”	155	149	47.62%	74	74
<b>Total</b>				<b>424</b>	<b>474</b>

In 2006 there was a reorganisation of the Bank's subsidiaries – SIA "Hipotēku bankas finanšu konsultāciju centrs" was merged with SIA "Hipotēku bankas nekustamā īpašuma aģentūra". The changes were registered with the Enterprise Register of the Republic of Latvia on 18 December 2006.

### 19.1.7.18. Intangible assets

(all amounts in thousands of Lats)

	Intangible assets Group	Bank
<u>Historic cost</u>		
<b>2006. As at 1 January 2006</b>	<b>2,689</b>	<b>2,638</b>
Additions	470	445
<b>2006. as of 31 December 2006</b>	<b>3,159</b>	<b>3,083</b>
<u>Accumulated depreciation</u>		
<b>2006. As at 1 January 2006</b>	<b>1,344</b>	<b>1,332</b>
Charge for the period	501	487
<b>2006. as of 31 December 2006</b>	<b>1,845</b>	<b>1,819</b>
<b>Net book value as at 31 December 2005</b>	<b>1,345</b>	<b>1,306</b>
<b>Net book value as at 31 December 2006</b>	<b>1,314</b>	<b>1,264</b>

### 19.1.7.19. Liabilities and Shareholders Equity

The following table shows changes in property and equipment of the Bank in 2006:

(all amounts in thousands of Lats)	Land and buildings	Vehicles	Office equipment	Investments Leasehold improvements	Total
<u>Historic cost</u>					
<b>2006. As at 1 January 2006</b>	<b>3,803</b>	<b>997</b>	<b>7,148</b>	<b>1,025</b>	<b>12,973</b>
Additions	207	190	944	181	1,522
Disposals	-	(144)	(405)	(27)	(576)
<b>2006. as of 31 December 2006</b>	<b>4,010</b>	<b>1,043</b>	<b>7,687</b>	<b>1,179</b>	<b>13,919</b>
<u>Accumulated depreciation</u>					
<b>2006. As at 1 January 2006</b>	<b>347</b>	<b>456</b>	<b>3,967</b>	<b>229</b>	<b>4,999</b>
Charge for the period	66	182	1,282	107	1,637
Disposals	-	(123)	(389)	(27)	(539)
<b>2006. as of 31 December 2006</b>	<b>413</b>	<b>515</b>	<b>4,860</b>	<b>309</b>	<b>6,097</b>
<b>Net book value as at 31 December 2006</b>	<b>3,597</b>	<b>528</b>	<b>2,827</b>	<b>870</b>	<b>7,822</b>

The following table shows changes in property and equipment of the Bank in 2005:

(all amounts in thousands of Lats)	Land and buildings	Vehicles	Office equipment	Investments Leasehold improvements	Total
<u>Historic cost</u>					
<b>2005. As at 1 January 2006</b>	<b>3,577</b>	<b>990</b>	<b>6,436</b>	<b>994</b>	<b>11,997</b>
Additions	226	238	917	34	1,415
Disposals	-	(231)	(205)	(3)	(439)
<b>2005. as of 31 December 2006</b>	<b>3,803</b>	<b>997</b>	<b>7,148</b>	<b>1,025</b>	<b>12,973</b>
<u>Accumulated depreciation</u>					
<b>2005. As at 1 January 2006</b>	<b>285</b>	<b>487</b>	<b>2,911</b>	<b>130</b>	<b>3,813</b>
Charge for the period	62	170	1,242	101	1,575
Disposals	-	(201)	(186)	(2)	(389)
<b>2005. as of 31 December 2006</b>	<b>347</b>	<b>456</b>	<b>3,967</b>	<b>229</b>	<b>4,999</b>
<b>Net book value as at 31 December 2005</b>	<b>3,456</b>	<b>541</b>	<b>3,181</b>	<b>796</b>	<b>7,974</b>

The following table shows changes in property and equipment of the Group in 2006:

(all amounts in thousands of Lats)	Land and buildings	Vehicles	Office equipment	Investments Leasehold improvements	Total
<u>Historic cost</u>					
<b>2006. As at 1 January 2006</b>	<b>3,803</b>	<b>1,066</b>	<b>7,209</b>	<b>1,026</b>	<b>13,104</b>
Previously unconsolidated subsidiaries	207	29	74	-	310
Additions	207	204	986	181	1,578
Disposals	-	(195)	(405)	(27)	(627)
<b>2006. as of 31 December 2006</b>	<b>4,217</b>	<b>1,104</b>	<b>7,864</b>	<b>1,180</b>	<b>14,365</b>
<u>Accumulated depreciation</u>					
<b>2006. As at 1 January 2006</b>	<b>347</b>	<b>460</b>	<b>3,988</b>	<b>230</b>	<b>5,025</b>
Previously unconsolidated subsidiaries	22	10	28	-	60
Charge for the period	76	194	1,311	107	1,688
Disposals	-	(126)	(389)	(27)	(542)
<b>2006. as of 31 December 2006</b>	<b>445</b>	<b>538</b>	<b>4,938</b>	<b>310</b>	<b>6,231</b>
<b>Net book value as at 31 December 2006</b>	<b>3,772</b>	<b>566</b>	<b>2,926</b>	<b>870</b>	<b>8,134</b>

The following table shows changes in property and equipment of the Group in 2005:

(all amounts in thousands of Lats)	Land and buildings	Vehicles	Office equipment	Investments Leasehold improvements	Total
<u>Historic cost</u>					
<b>2005. As at 1 January 2006</b>	<b>3,577</b>	<b>996</b>	<b>6,477</b>	<b>995</b>	<b>12,045</b>
Additions	226	301	938	34	1,499
Disposals	-	(231)	(206)	(3)	(440)
<b>2005. as of 31 December 2006</b>	<b>3,803</b>	<b>1,066</b>	<b>7,209</b>	<b>1,026</b>	<b>13,104</b>
<u>Accumulated depreciation</u>					
<b>2005. As at 1 January 2006</b>	<b>285</b>	<b>488</b>	<b>2,921</b>	<b>130</b>	<b>3,824</b>
Charge for the period	62	173	1,253	102	1,590
Disposals	-	(201)	(186)	(2)	(389)
<b>2005. as of 31 December 2006</b>	<b>347</b>	<b>460</b>	<b>3,988</b>	<b>230</b>	<b>5,025</b>
<b>Net book value as at 31 December 2005</b>	<b>3,456</b>	<b>606</b>	<b>3,221</b>	<b>796</b>	<b>8,079</b>

### 19.1.7.19. Due to credit institution

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Due to credit institutions registered in OECD area	290,545	279,882	148,902	148,902
Due to credit institutions registered in Latvia	5,684	5,684	3,170	3,170
	<b>296,229</b>	<b>285,566</b>	<b>152,072</b>	<b>152,072</b>

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
On demand	116	116	560	560
Term balances	296,113	285,450	151,512	151,512
	<b>296,229</b>	<b>285,566</b>	<b>152,072</b>	<b>152,072</b>

The average interest rate for due to credit institutions as at 31 December 2006 was 3.82% (at 31 December 2005: 2.64%).

### 19.1.7.20. Customer deposits

(all amounts in thousands of Lats)

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Central government	-	-	2	2
Local government	13,023	13,023	3,925	3,925
State owned companies	11,243	11,243	7,126	7,126
Financial institutions	22,652	22,784	17,795	17,816
Private companies	43,388	43,398	27,287	27,287
Individuals	179,117	179,117	135,049	135,049
Public and religious organisations	2,405	2,405	1,269	1,269
	<b>271,828</b>	<b>271,970</b>	<b>192,453</b>	<b>192,474</b>
Accrued interest	2,215	2,215	1,871	1,871
Total due to customers	<b>274,043</b>	<b>274,185</b>	<b>194,324</b>	<b>194,345</b>

  

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
On demand	81,640	81,782	62,556	62,577
Term balances	192,403	192,403	131,768	131,768
Total due to customers	<b>274,043</b>	<b>274,185</b>	<b>194,324</b>	<b>194,345</b>

99.2% of the deposits with the Bank are the Bank's liabilities to residents of Latvia, 0.7% are liabilities to OECD residents, and the remaining 0.1% of the deposits are liabilities to non-OECD residents.

The effective annual interest rate payable on demand deposits as of 31 December 2006 was 0.55 % (0.47% as of 31 December 2005) , for term deposits – 4.49% (3.88% as of 31 December 2005). 3.88%).

### 19.1.7. 21. Mortgage bonds

Total amount of the debt securities issued by the Bank as at 31 December 2006 consists of mortgage bonds in circulation with a total nominal value of LVL 43.964 thousand (as of 31 December 2005: LVL 41.837 thousand). 2006. As at 31 December 2006, mortgage bonds with a total nominal value of LVL 1.571 thousand (as at 31 December 2005: LVL 8.881 thousand) were repurchased by the Bank. Mortgage bonds are shown net of repurchases with a nominal value of LVL 42.393 thousand and a book value of LVL 43.211 thousand (as of 31 December 2005: LVL 33.627 thousand).

The purpose of issuing was to attract financial resources for refinancing of the long-term mortgage loans. The average yield to maturity of the mortgage bonds denominated in lats fluctuated from 4.12% up to 5.18% per annum depending on the

maturity of mortgage bonds. The average yield to maturity of the mortgage bonds denominated in US dollars fluctuated from 5.50% up to 6.24% per annum. The average yield to maturity of the mortgage bonds denominated in Euro was 3.76%.

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

During 2006, the Bank issued CA series mortgage bonds for the total amount of EUR 20,000 thousand and redeemed LVL 3,000 thousand of AD series mortgage bonds, USD 4,000 thousand of BA series mortgage bonds and USD 10,000 thousand of BB series mortgage bonds.

#### Statement on Mortgage bond coverage register as at 31 December 2006

##### (a) Issued Mortgage Bonds

ISIN	Security class	Number of Mortgage Bonds	Face amount, currency	Registered amount currency	Coupon rate	Maturity date	Outstanding volume (net value), LVL	Carrying amount, LVL
LV0000800092	AG	30,000	100 LVL	3,000,000 LVL	7.5%	15.08.2007.	2,738,800	2,819,169
LV0000800118	AI	20,000	100 LVL	2,000,000 LVL	7.0%	15.08.2008.	1,048,200	1,090,411
LV0000800167	AJ	30,000	100 LVL	3,000,000 LVL	5.25%*	15.08.2008.	2,995,000	3,054,402
LV0000800183	AK	30,000	100 LVL	3,000,000 LVL	5.25%*	15.08.2009.	2,935,600	2,993,832
LV0000800266	AN	30,000	100 LVL	3,000,000 LVL	5.25%*	15.08.2010.	3,000,000	3,065,430
LV0000800100	AH	20,000	100 LVL	2,000,000 LVL	7.5%	15.08.2011.	1,129,200	1,156,915
LV0000800217	BA	100,000	100 USD	10,000,000 USD	6.25%**	15.08.2011.	3,216,000	3,291,933
LV0000800340	CA	200,000	100 EUR	20,000,000 EUR	3.69****	15.02.2012.	14,026,000	14,215,188
LV0000800142	AL	50,000	100 LVL	5,000,000 LVL	6.0%	15.08.2012.	4,810,600	4,910,757
LV0000800159	AM	70,000	100 LVL	7,000,000 LVL	5.25%	15.08.2013.	3,814,000	3,869,652
LV0000800241	BB	150,000	100 USD	15,000,000 USD	6.25%***	15.08.2014.	2,680,000	2,743,278
<b>Total</b>							<b>42,393,400</b>	<b>43,210,967</b>

\* **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 LIBOR plus 0.7%) 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 Cover Register

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 31 December 2006 amounted LVL 115.083 thousand (as at 31 December 2005: LVL 83.571 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans (ordinary cover) in the amount of LVL 113,986 thousand (as at 31 December 2005: LVL 77,877 thousand) and substitute cover amounting to LVL 1,097 thousand (as at 31 December 2005: LVL 5,694 thousand).

As of 31 December 2006, a ratio of substitute cover against amount of Mortgage Bonds in circulation (maximum statutory allowed – 20%) was 2.5% (as of 31 December 2005: 13.6%), while the amount of assets included in the Mortgage Bond Cover Register exceeds the amount of Mortgage Bonds in circulation by 63.2% (as of 31 December 2005: 55.5%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement to the overcollateral: 10%).

(c) Cover Sufficiency Calculation of Mortgage Bonds in Circulation

Redemption date and Coupon Payment Dates	Bonds cover	Mortgage Payments receivable payments	Payments of Mortgage Bonds in Circulation	Mortgage Bond Cover	Substitute Cover		
Cover Sufficiency on the last Payment Date*	Principal Payments	Coupon Payments	Redemption Payments	Coupon Payments	Sufficiency		
A	1	2	3	4	5	6	7
15.02.2007	-	879	777	-	(1,157)	-	499
15.08.2007	879	2,988	3,473	(3,000)	(1,157)	-	3,183
15.02.2008	867	3,685	3,357	-	(1,044)	-	6,865
15.08.2008	4,552	3,499	3,242	(5,000)	(1,044)	-	5,249
15.02.2009	3,051	5,686	3,086	-	(895)	-	10,928
15.08.2009	8,737	4,025	2,932	(3,000)	(895)	-	11,799
15.02.2010	9,762	5,254	2,763	-	(817)	-	16,962
15.08.2010	15,016	3,163	2,641	(3,000)	(817)	-	17,003
15.02.2011	15,179	3,169	2,535	-	(738)	-	20,145
15.08.2011	18,348	3,690	2,426	(4,366)	(738)	-	19,360
15.02.2012	17,672	2,956	2,312	(14,056)	(594)	-	8,290
15.08.2012	6,572	3,159	2,213	(5,000)	(335)	-	6,609
15.02.2013	4,731	3,318	2,103	-	(185)	-	9,967
15.08.2013	8,049	5,745	1,970	(3,862)	(185)	-	11,717
15.02.2014	9,932	3,746	1,795	-	(84)	-	15,389
15.08.2014	13,678	38,908	8,034	(2,680)	(84)	-	57,856
15.02.2015	49,906	20,116	5,197	-	-	-	75,219
<b>Total</b>		<b>113,986</b>	<b>50,856</b>	<b>(43,964)</b>	<b>(10,769)</b>	<b>-</b>	

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

(d) Analysis of mortgage loans included in Mortgage Bond cover by type of real estate

(all amounts in thousands of Lats)

	31/12/06 Bank	31/12/05 Bank
Residential mortgage loans	65,182	38,855
Commercial mortgage loans	48,804	39,022
<b>Total</b>	<b>113,986</b>	<b>77,877</b>

19.1.7.21. Deferred Tax Liabilities

Movements in the provision for deferred tax liability:

	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Deferred tax liability at the beginning of the reporting year	970	968	670	666
Change in deferred tax liabilities	(71)	(78)	300	302
Deferred tax liability at the end of the reporting year	899	890	970	968
Deferred income tax assets and liabilities are attributable to the following items:	31/12/06		31/12/05	
	Group	Bank	Group	Bank
Deferred tax liabilities:	1,085	1,070	1,060	1,052
Temporary difference of property and equipment depreciation	803	788	795	787
Revaluation of investment property	282	282	265	265
Deferred tax assets:	186	180	90	84
Provision for employee holiday pay	49	45	38	36
Other temporary differences	137	135	52	48
Total provision for deferred taxation	899	890	970	968

19.1.7.22. Subordinated debt

2001. On 1 August 2001, an agreement was concluded between the Bank and the Ministry of Finance on issuing of subordinated debt of LVL 3,300 thousand, with a maturity of 31 August 2008 and an interest rate of 5.88% as at 31 December 2006.

On 27 November 2003 the Bank and Ministry of Finance concluded an agreement on attraction of subordinated debt in the amount of LVL 10,000 thousand, with a maturity of 7 February 2013, and an interest rate of 5.60% as of 31 December 2006.

### 19.1.7.23. Share Capital

Share capital as at 31 December 2005 and 31 December 2006 was as follows:

	31/12/06 Number of Mortgage Bonds	LVL	31/12/05 Number of Mortgage Bonds	LVL
<b>Fully paid share capital</b>				
Ordinary shares	48,513,143	48,513,143	48,513,143	48,513,143
<b>Total fully paid share capital:</b>	<b>48,513,143</b>	<b>48,513,143</b>	<b>48,513,143</b>	<b>48,513,143</b>

According to the Articles of Association, the fully paid share capital of the Bank consists of 48,513,143 ordinary shares in the total amount of LVL 48,513,143, owned by the Republic of Latvia. The nominal value of each share is LVL 1.

In the reporting period, the Bank distributed LVL 1,273 thousand to the Ministry of Finance for the use of the state funds from the profit for 2005. According to the Cabinet of Ministers regulations, the Bank, for the reporting year, has calculated LVL 1,400 thousand as state taxes, which represents 27% of the Bank's net profit for the reporting year.

### 19.1.7.24. Related Party Transactions

Related parties are defined as shareholder who has significant influence over the Bank, members of the Council, the Board of Directors and the Bank's higher level management, their close relatives and companies in which they have a controlling interest as well as Bank's subsidiaries and companies, in which the Bank is having a significant influence.

The following loans and deposits were held with related parties at 31 December 2006:

(all amounts in thousands of Lats)

	31/12/06 Bank	31/12/05 Bank
<b>Loans:</b>		
Members of the Council, the Board and high level management	1,489	1,247
- subsidiaries	47,221	29,343
- other related parties	1,783	2,338
<b>Total loans held by related parties</b>	<b>50,493</b>	<b>32,928</b>
<b>Deposits:</b>		
- Members of the Council and the Board and high level management	553	495
- subsidiaries	144	188
- other related parties	40	546
<b>Total deposits held by related parties</b>	<b>737</b>	<b>1,229</b>

Bank's income / (expenses) from transactions with related parties:

(all amounts in thousands of Lats)

	2006 Bank	2005 Bank
Interest income from loans to related parties	1,630	840
Interest expenses for deposits held from related parties	(14)	(40)
<b>Total income</b>	<b>1,616</b>	<b>800</b>

The average interest rate as at 31 December 2006 on loans issued to related parties was 4.12% per annum (3.47% at 31 December 2005). 3.47%). The average interest rate as at 31 December 2006 on deposits held for related parties was 2.41% per annum (1.14% at 31 December 2005). 1.14%).

Table below provides assets and liabilities of the Bank related to transactions with the government of the Republic of Latvia, state controlled entities and institutions:

(all amounts in thousands of Lats)	31/12/06 Bank	31/12/05 Bank
<b>Assets:</b>		
Latvian Treasury bills and government bonds	13,741	16,191
Loans to state controlled entities	362	284
<b>Total</b>	<b>14,103</b>	<b>16,475</b>
<b>Liabilities:</b>		
Subordinated debt	13,302	13,302
Deposits of central government and state controlled entities	11,243	7,128
<b>Total</b>	<b>24,545</b>	<b>20,430</b>

Bank's income / (expenses) from transactions with the government of the Republic of Latvia, state controlled entities and institutions:

(all amounts in thousands of Lats)	2006 Bank	2005 Bank
Interest income	627	572
Interest expense	(1,625)	(1,036)
<b>Total expenses, net</b>	<b>(998)</b>	<b>(464)</b>

#### 19.1.7.25. Subsequent Events

On 3 January 2007 the Bank increased the consolidated limit of liabilities to its subsidiary SIA "Hipolīzings" for the total amount LVL 58,720 thousand.

Except for the above, there are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Bank and the Group as at 31 December 2006.

#### 19.1.7.26. Off Balance Sheet Items and Contingent Liabilities

(all amounts in thousands of Lats)	31/12/06		31/12/05	
	Group	Bank	Group	Bank
<b>Contingent liabilities</b>	11,891	11,891	4,605	4,605
<b>outstanding guarantees</b>	11,891	11,891	4,605	4,605
<b>Financial commitments</b>	36,077	40,453	25,033	26,915
<b>unutilised loan facilities</b>	35,519	39,895	24,169	26,051
<b>other</b>	558	558	864	864

#### 19.1.7.27. 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 differ from their carrying values, as follows:

(all amounts in thousands of Lats)	31/12/06		31/12/05	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Due from credit institutions	72,021	72,013	20,804	20,810
Loans to customers	499,484	500,016	379,576	380,219
<b>Liabilities</b>				
Due to credit institution	296,229	296,204	152,072	152,121
Customer deposits	274,043	272,314	194,324	194,921
Mortgage bonds	43,211	43,800	33,627	34,266

In assessing the differences of fair value to carrying value, management has performed discounted cash flow analysis where financial assets and liabilities are at fixed rates of interest for fixed period. All items where interest rates are pegged to floating market interest rates have not been recalculated; the carrying value is considered equal to fair value.

## **19.2. Statement on audit of financial information**

Financial reports of previous years have been inspected by a licensed auditor.

### 19.2.1. Auditors' report on Year 2006 Annual Report

#### **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of JSC Mortgage and Land Bank of Latvia  
Report on the Financial Statements

We have audited the consolidated financial statements of JSC Mortgage and Land Bank of Latvia and its subsidiary (the Group) and the financial statements of JSC Mortgage and Land Bank of Latvia (the Bank) for the year ended 31 December 2006 set out on pages 9 to 48. The audited financial statements include the balance sheets as of 31 December 2006, related income statements, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

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

#### *Report on other legal and regulatory requirements*

We have read the Management Report set out on pages 3 to 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2006.

PricewaterhouseCoopers SIA  
Audit company licence No. 5

Juris Lapshe  
Certified auditor  
Certificate No. 116

Member of the Board  
Riga, Latvia, 7 March 2007

## **19.2.2. Auditors' report on Year 2005 Annual Report**

### **AUDITORS' REPORT**

#### **To the shareholder of JSC Mortgage and Land Bank of Latvia**

We have audited the consolidated financial statements of JSC Mortgage and Land Bank of Latvia and its subsidiary (the Group) and the financial statements of JSC Mortgage and Land Bank of Latvia (the Bank) set out on pages 9 to 48. The audited financial statements include the balance sheets as of 31 December 2005, related income statements, statements of changes in equity and cash flow statements for the year then ended and note disclosure. These financial statements are the responsibility of JSC Mortgage and Land Bank of Latvia 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 3 to 8 and did not identify material inconsistencies with the audited financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

PricewaterhouseCoopers SIA  
Audit company licence No. 5

Juris Lapshe  
Certified auditor  
Certificate No. 116  
Member of the Board  
22 February 2006

### 19.3. Interim financial statements

Information included in this part of the Base Prospectus is taken from the audited consolidated financial statements of 9 months of the year 2007, approved in Mortgage Bank's shareholder's meeting.

#### 19.3.1. PROFIT AND LOSS STATEMENT

Audited profit and loss statements for nine months of 2007 and nine months of 2006

	9 months of 2007		9 months of 2006	
	Group	Bank	Group	Bank
Interest income	37,230	35,532	23,207	22,394
Interest expense	(20,835)	(20,757)	(11,187)	(11,168)
Net interest income	<b>16,395</b>	<b>14,775</b>	<b>12,020</b>	<b>11,226</b>
Commission fee income	3,001	3,017	2,614	2,581
Commission fee expense	(613)	(566)	(445)	(429)
Net fee and commission income	<b>2,388</b>	<b>2,451</b>	<b>2,169</b>	<b>2,152</b>
Dividend income	-	500	-	-
Net securities and foreign exchange trading income	1,608	1,577	842	843
Other operating income	3,304	2,453	4,356	1,612
Staff Costs	(7,306)	(6,692)	(5,473)	(5,002)
Administrative Expenses	(6,021)	(5,471)	(7,121)	(4,581)
Depreciation and amortisation	(1,799)	(1,698)	(1,677)	(1,609)
Provision for impairment losses	(1,950)	(1,705)	(567)	(617)
Profit before income tax	<b>6,619</b>	<b>6,190</b>	<b>4,549</b>	<b>4,024</b>
Corporate income tax	(1,198)	(1,059)	(756)	(664)
Profit for the reporting period	<b>5,421</b>	<b>5,131</b>	<b>3,793</b>	<b>3,360</b>

19.3.2. Audited balance as of September 30, 2007 and September 30, 2006.

	30/09/07		31/12/06	
<u>Assets</u>	Group	Bank	Group	Bank
Cash and balances with Central Bank	62,654	62,654	58,007	58,006
Trading securities	1,309	1,309	2,852	2,852
Investment securities held to maturity	3,625	3,625	-	-
Investment securities – available for sale	49,145	49,145	50,174	50,174
Due from credit institutions	86,813	86,677	72,021	71,949
Derivative financial instruments	-	-	2	2
Loans to customers	628,430	620,533	499,484	489,250
Investment properties	2,253	2,253	2,253	2,253
Investment in subsidiaries and associated undertakings	422	924	422	424
Intangible assets	2,102	2,021	1,314	1,264
<b>Liabilities and Shareholders Equity</b>	<b>8,900</b>	<b>7,898</b>	<b>8,134</b>	<b>7,822</b>
Other liabilities	3,338	1,408	2,748	622
Deferred expenses and accrued income	709	619	605	512
<b>Total assets</b>	<b>849,700</b>	<b>839,066</b>	<b>698,016</b>	<b>685,130</b>
<u>Liabilities</u>				
Due to credit institution	420,025	411,569	296,229	285,566
Customer deposits	282,857	283,470	274,043	274,185
Derivative financial instruments	5	5	20	20
Transit funds	2,759	2,759	2,869	2,869
Debt securities issued	51,930	51,930	43,211	43,211
Other liabilities	11,679	10,921	5,160	4,604
Deferred income and accrued expenses	2,656	2,062	1,778	1,326
Current income tax liabilities	247	228	796	569
Deferred tax liabilities	899	890	899	890
Subordinated debt	13,500	13,500	13,302	13,302
<b>Total liabilities</b>	<b>786,557</b>	<b>777,334</b>	<b>638,307</b>	<b>626,542</b>
<b>Shareholders equity</b>				
Share Capital	48,513	48,513	48,513	48,513
Reserve Capital	2,524	2,063	2,524	2,063
Revaluation deficit on available-for-sale investments	(1,202)	(1,202)	(615)	(615)
Retained earnings	13,308	12,358	9,287	8,627
<b>Total equity and reserves</b>	<b>63,143</b>	<b>61,732</b>	<b>59,709</b>	<b>58,588</b>
<b>Total liabilities</b>	<b>849,700</b>	<b>839,066</b>	<b>698,016</b>	<b>685,130</b>
<b>Off Balance Sheet Items</b>				
Contingent liabilities	3,593	3,593	11,891	11,891
Financial commitments	48,829	74,463	36,077	40,453

#### **19.4. Statement on audit of interim financial information**

Financial reports of previous nine months have been inspected by a licensed auditor.

##### 19.4.1. Auditors' report on 9-month of Year 2007 Report

#### **To the Board of JSC Mortgage and Land Bank of Latvia**

##### *Introduction*

We have reviewed the attached condensed interim balances as of 30 September 2007, condensed interim profit and loss statements, condensed interim own capital change reports and condensed interim cash flow statements of JSC Mortgage and Land Bank of Latvia and its subsidiary (the Group) and of JSC Mortgage and Land Bank of Latvia (the Bank) for the period of 9 months ended on 30 September 2007, set out on pages 7 to 22. The Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union, applicable to the interim financial information (SGS No. 34) requirements. Our responsibility is to provide a report on these interim financial statements based on our review.

##### *Scope of the review*

We have performed the review according to International Standard on Review Engagements 2410 „Review of Interim Financial Information Performed by the Independent Auditor of Entity”. Review of interim financial information encompasses inquiries, primarily of employees of the Bank responsible for financial and accounting matters, and perform analytical and other review procedures. As the scope of the review is materially lower than that of an audit performed according to International Accounting Standards, thus the review does not allow us to obtain assurance that we have identified all significant events that might be disclosed in an audit. Therefore we do not provide an auditor's opinion.

##### *Conclusion*

On the basis of our review, no such circumstances or facts had come to the our attention that caused us believe that the attached interim financial information was not prepared, in all material respects, in accordance with the applicable International Accounting Standard No. 34 “Interim Financial Information”.

PricewaterhouseCoopers SIA  
Commercial enterprise of certified auditors  
Licence No. 5

Juris Lapshe  
Certified auditor  
Certificate No. 116

Member of the Board

Riga, Latvia  
14 November 2007

#### 19.4.1. Auditors' report on 9-month of Year 2006 Report

##### **To the Board of JSC Mortgage and Land Bank of Latvia**

We have audited the attached condensed interim balances as of 30 September 2006, condensed interim profit and loss statements, condensed interim own capital change reports and condensed interim cash flow statements of JSC Mortgage and Land Bank of Latvia and its subsidiary (the Group) and of JSC Mortgage and Land Bank of Latvia (the Bank) for the period of 9 months ended on 30 September 2006, set out on pages 7 to 17. The Management of the Bank is responsible for this interim financial information. Our responsibility is to provide a report on these interim financial statements based on our review.

We have performed the review according to International Standard on Review Engagements 2410. This Standard requires that we plan and perform the review to obtain limited assurance about whether the condensed interim financial information is free of material misstatement. A review of interim financial information encompasses inquiries of employees of the Bank and analytical inspection of financial data, therefore it provides assurance more limited to that of an audit. We have not performed an audit therefore we do not provide an auditor's opinion.

On the basis of our review, no such circumstances or facts had come to the our attention that caused us believe that the attached condensed interim financial information for the period ending 30 September 2006 was not prepared, in all material respects, in accordance with the applicable International Accounting Standard No. 34 "Interim Financial Information".

PricewaterhouseCoopers SIA  
Audit company licence No. 5

Juris Lapshe  
Certified auditor  
Certificate No. 116

Member of the Board

15 November 2006

### **19.5. Legal Proceedings and Arbitrage**

Mortgage Bank is involved in litigation both as the plaintiff and the defendant, however the above-mentioned proceedings may not substantially affect the financial situation and profitability of the Issuer.

### **19.6. Substantial Changes in Financial Situation of the Issuer**

Since publishing of financial reports for the 9-month period of 2007, no substantial changes in the financial situation of the Issuer have taken place.

### **20. Important agreements**

Mortgage Bank and other companies of the Group have not concluded any important agreements, obliging any of the Group members to such liabilities that might affect their capabilities to comply with their commitments towards investors in respect to securities to be issued.

### **21. Publicly accessible documents**

Investors, potential investors and other public have the opportunity to get acquainted with the following documents:

- Foundation Documents and Statutes at the Register of Enterprises of the Republic of Latvia, Rīga, Pērses iela 2;
- financial information of the Bank for two reporting years before publishing of the Prospectus, on Mortgage Bank's website [www.hipo.lv](http://www.hipo.lv);
- Mortgage Bank's financial reports, operation performance and other information required by the Law and RFB enactments, which Issuers of securities listed in Debt Securities List are to publish on the RSE website [www.rfb.lv](http://www.rfb.lv).

**Other information**

All disputes arising in respect to the bonds shall be settled in court of the Republic of Latvia in accordance to the provisions of the Civil Procedure Law.

Interpretation of the Prospectus provisions in Latvian is holds the priority against an interpretation in any other language. Translations of the Base Prospectus are unofficial. Translations of Base Prospectus are done with the purpose to provide the investor with better understanding of the information provided in the Base Prospectus.