

**MORTGAGE AND LAND BANK
OF LATVIA**

**Interim Condensed Consolidated and
Bank Financial Statements for the 9
months period ended 30 September 2006**

Mortgage and Land Bank of Latvia
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for the 9 months period ended 30 September 2006

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MANAGEMENT REPORT

The nine months of 2006

Taking into account the growth of the world economy in the first half of the year 2006, the International Monetary Fund (IMF) forecasts that the world economy will grow by 5,1% this year. Amongst the leading developed countries of the world, the biggest growth of Gross Domestic Product (GDP) is expected in the United States of America – by 3.4%, the economy of Japan this year will increase 2.7%, while the Eurozone economy - 2.4%. The GDP of Central European and Western European Countries will increase by 5.3% on average, growth of Russian economy is forecasted to be 6.5%, while Chinese economy - 10%. In the year 2005, the world economy increased by 4.9%.

In 2006, Latvian economy is experiencing record high growth. This year the IMF forecasts Latvia to have the 10th biggest GDP growth in the world. Rapid growth rate is facilitated by the European Union (EU) integration process and increase in domestic demand (private consumption and investment). However, at the same time essential macroeconomic problems become more obvious – consistent inflation level, high current account deficit, as well as low productivity and lack of labour force.

Economic development of Latvia was approvingly evaluated by international rating agencies. In 2006, the credit rating agencies *Fitch Ratings*, *Moody's*, and *Standard & Poor's* have stated that the rating of Latvian long-term relations in lats (LVL) and foreign currency remained at the level of the previous year.

In the first half of the year 2006, the Latvian GDP has increased by 12% as compared to the first six months of the previous year (GDP growth in 2005 was 10.2%). The GDP growth in the first half of the year facilitated volume growth in the following spheres: trade – by 18.2%, transport and communication – by 8.6%, processing industry – by 6.5%, and construction – by 16.7%. In the first half of 2006, Latvia was the country with the most rapidly growing economy in the European Union. The Ministry of Economics of LR forecasts that the Latvian economy might reach 11% increase this year.

In 2006 in Latvia the consumer price growth still had a high growth rate. If compared to the September of the previous year, in September 2006 consumer prices have increased by 5.9% (in 2005 consumption price inflation was 7%). The biggest influence on the price increase during the nine months of this year was caused by rises in the catering industry, heat energy, tobacco product and petrol spheres. Once again, the inflation indicator in Latvia is the highest amongst the EU member state consumer price growth indicators. The Bank of Latvia forecasts that inflation in 2006 will be at the 6% level.

Unemployment rate in Latvia has decreased by 0.6 per cent during the last nine months – down to 6.8% of the economically active population. The average unemployment level this year is forecasted to be 7.2%.

The external trade volumes of Latvia continued to grow in 2006. For the first eight months of the year, export has increased by 15%, but import – by 31%, if compared to the corresponding period of the previous year; prevalence of import over export was 85%. Main trade partners of Latvia are the member states of the European Union, which share in the Latvian external trade turnover exceeds 75%.

Observing the Maastricht criterium (3% of the GDP), the state budget deficit this year is planned to be 1.5% of the GDP.

MANAGEMENT REPORT (continued)

The Latvian banking system continues its dynamic development. In 2006 in Latvia there are 22 banks and two foreign bank branches operating. During the nine months of this year, bank assets have increased by 31%, reaching LVL 14 billion by the end of September, deposits have increased by 15%, issued credit amount have grown by 38%, and banking capital and reserves by 33%. The un-audited profit of banks for the nine months of this year is LVL 178.3 million, which is LVL34.2 million or 24% more than was earned for the corresponding period of the year 2005.

During 2006, the commercial banks of Latvia continued to accentuate advertising of mortgage credits, offering special conditions and attractive credit rates. As a result, during the first nine months of this year the amount of credits issued to households for purchase of lodgement has grown rapidly – by 58%, while the total mortgage credit amount has increased by 61%.

For macroeconomic stabilization purposes, the Bank of Latvia has made several decisions for credit limitation in 2006: from the 24th of May the obligatory reserve base was widened, including also banking relations with terms exceeding 2 years, while from the 15th of July the refinancing interest rate was increased by 0.5 per cent up to 4.5%. The European Central Bank this year has repeatedly increased the Euro base interest rate (up to 3.25%), and the USA Federal Reserve system has increased the dollar base interest rate again (up to 5.25%). Therefore, during the year 2006 the average interest rates for credits issued by Latvian commercial banks have essentially increased. The average interest rate for credits issued to households (in lats) has grown from 7.2% (in January) to 10.8% (in September), while for non-financial societies – from 6.4% to 7.1% for the corresponding period. The average interest rate for credits (in foreign currencies) issued to households has increased from 4.7% (in January) to 5.4% (in September), while for non-financial societies - from 5.3% to 5.5% for the corresponding period.

During the nine months of this year, the average time deposit interest rate have grown as well: for households deposits (in lats) – from 3.1% to 3.7%, for non-financial society deposits (in lats) – from 3.6% to 4%, for households deposits (in foreign currency) – from 2.95% to 3.6%, for non-financial society deposits (in foreign currency) – from 2.8% to 3.8%.

The Hipotēku banka continues its growth in the year 2006, which is confirmed by all the main financial indicators. During the first nine months of this year, the gross assets of the Bank have increased up to LVL 610 million or by 30%, while the profit of the Bank was LVL 3,36 million, which is LVL 1.3 million or 63% more than for the corresponding period of the previous year.

The gross credit portfolio of the Hipotēku banka for the first three quarters of 2006 have increased by LVL 79 million or 21%, and at the end of September it have reached LVL461 million. The Bank stands on the 6th place among all commercial banks of Latvia by the volume of the credit portfolio (on the 30th of September) with the market share of 5%. In order to improve the Hipotēku banka client service quality, an internet-based remote credit application form was created at the beginning of the year, allowing the clients to obtain complete information about credit possibilities or a definite credit offer. This year the Bank has also organized several credit-advertising campaigns (for small- and medium-sized enterprises (SME) and households), as well as created a new product for entrepreneurs – ”The Easy Credit” (in several working days’ time an entrepreneurs is able to obtain a credit from LVL 2000 to 5000 without collateral or a business plan).

The amount of deposits made in the Bank in the first nine months of 2006 has increased by LVL 59 million or 31%, achieving LVL 253 million. By deposit volumes (including transit funds) at the end of September the Hipotēku banka was on the 10th place amongst commercial banks of Latvia (market share – 3,5%). This year, in order to attract deposits, the Bank actively advertised various deposit possibilities and organized annual time deposit campaign „Ābele” („Apple”). In 2006, the Hipotēku banka continued to realize the development program chain, which aimed at the provision of support to specific groups of entrepreneurs and the population at the direction of the board. There were several programmes realized – the SME development programme, the household credit development programme, the Agricultural long-term investment loan programme, the programme

MANAGEMENT REPORT

(continued)

of crediting acquisition of land for agricultural purposes, Energy efficiency fund loans and the „Lodgement readjustment initiative for energy saving” project. Also the partnership with cooperative savings-and-loans companies was continued.

Starting from the year 2006, within the framework of the small and medium-sized enterprise crediting support programme, the Hipotēku banka has initiated issue of loans amounting to EUR8 million from the resources of the Council of Europe Development Bank and the Development Bank of Germany (*Kreditanstalt für Wiederaufbau*), which were granted to the Bank under the support of the European Community. Loans from these resources are provided for the following purposes: loans to micro enterprises and loans to innovative projects.

Expanding its banking development activities, the Bank has initiated several new projects:

- 1) A Credit programme for enterprises starting their commercial activities amounting to 20 million lats, financed by the European Regional Development Fund,
- 2) Training, consultations, and financial support for the initiation of commercial activities or self-employment amounting to LVL 5.2 million (without grant distribution), financed by the European Social Fund,
- 3) Lodgement collateral programme amounting to LVL2 million . In April 2006, within its framework an agreement was signed by the Ministry of Regional development and municipality affairs, the Hipotēku banka and the Nordea. This programme comes under the Ministry of Regional development and municipality affairs, and it allows tenants of denationalized houses and families with children to obtain collateral in case of taking a loan for purchase or construction of a lodgement.

Developing its payment services, the Hipotēku banka in 2006 has created a special product – a payment instrument set including a settlement account, the *HipoNet* internet bank, and the Maestro or MasterCard payment card. When choosing the payment instrument set, clients pay less than in case of purchase of each service separately.

Starting from August of this year, based on the growth of the travel industry and the increase of funds spent on travel, the Hipotēku banka offers its first credit card specialized for travelling purposes – ”Pasaules karte” („*The World Card*”). It allows purchasing tickets via the Internet, booking and paying for hotels, paying in Latvia and abroad without commission fees, obtaining discounts at travel agencies, and other advantages. The Bank offers card holders a credit amounting to five monthly salaries, ”credit vacation” and, in case of unexpected expenses, the new ”Pasaules karte” holders may use the special service of the Hipotēku banka - „The Salutory Call”.

From the 1st of July 2006, developing its activities in the equity market, the Hipotēku banka offers its clients to operate additionally on stock exchanges of Tallinn and Vilnius. Clients have the possibility to use the direct trade system of I-Brokeris in order to carry out operations in Tallinn and Vilnius. Since the Bank is also a member of the Riga Stock Exchange, it became the eleventh Bank to have the member status at all Baltic stock exchanges.

On the 21st-22nd of September of the year 2006, the Ministry of Economics of the LR in cooperation with the Latvian Business Consultant Association and the support of the Hipotēku banka has organized the „Entrepreneurs’ Days of Knowledge”. This annual knowledge fair is a significant investment into supporting and improving the entrepreneurial environment social and intellectual capital, which generally facilitates development of competitive entrepreneurial environment based on knowledge and business administration innovations in the markets of Latvia and the EU.

MANAGEMENT REPORT
(continued)

This year, the Hipotēku banka also participated in disabled person entrepreneurship facilitation project, organized by the "Apeirons" association in cooperation with the Latvian University. The remote education programme of the project allowed teaching invalids and persons supporting them on how to start entrepreneurial activities. This project is nominated for an international prize.

In 2006, the same as in the last two previous years, the Hipotēku banka organized workshops in all Latvian cities with branches of the Bank during the whole summer. Workshops were visited by the clients of the Hipotēku banka, its employees, and simple patriots of their own cities. 25 workshops continued the existing and initiated new city improvement projects. This year the Hipotēku banka also supported the Cesis 800-year anniversary and Rezekne town festivals.

The Hipotēku banka also continues modernization and improvement of the branch and payment group network, providing its clients with the possibility to access banking services in the most convenient way. Presently, the Bank has 30 branches in each regional centre of Latvia, and 8 payment groups in different Latvian regions, which ensures client servicing over the whole territory of Latvia.

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS

Supervisory Council (at 30 September 2006)

Gundega Šulca	Chairman of the Council
Zaiga Liepiņa	Deputy Chairman of the Council
Uldis Apels	Member of the Council
Linda Kaņepe	Member of the Council
Vija Gēme	Member of the Council
Māris Klismets	Member of the Council
Laimdota Straujuma	Member of the Council

Board of Directors (at 30 September 2006)

Inesis Feiferis	Chairman of the Board
Rolands Paņko	Deputy Chairman of the Board
Aija Laicāne	Member of the Board, Chief Accountant
Jēkabs Krieviņš	Member of the Board, Credit Director

There have been no changes among the members of the Board and Supervisory Council during the reporting period.

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

Riga

15 November 2006

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

Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the interim condensed consolidated and bank financial statements on pages 8 to 17 for the period ended 30 September 2006. Management confirms that these financial statements have been prepared on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

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

On behalf of the management,

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

PRICEWATERHOUSECOOPERS 

Mortgage and Land Bank of Latvia
Interim Condensed Consolidated and Bank Financial Statements
for the 9 months period ended 30 September 2006

INCOME STATEMENT

(all amounts in thousands of Lats)

	9 months to 30 September 2006		9 months to 30 September 2005	
	Group	Bank	Group	Bank
Interest income	21,517	21,027	15,846	15,532
Interest expense	(11,187)	(11,168)	(7,961)	(7,961)
Net interest income	10,330	9,859	7,885	7,571
Fee and commission income	4,304	3,948	3,559	3,385
Fee and commission expense	(445)	(429)	(366)	(355)
Net fee and commission income	3,859	3,519	3,193	3,030
Net trading income	842	843	1,161	1,150
Other operating income	4,356	1,612	1,779	1,365
Staff costs	(5,473)	(5,002)	(4,217)	(4,078)
Administrative expenses	(7,121)	(4,581)	(4,268)	(3,762)
Depreciation and amortisation	(1,677)	(1,609)	(1,535)	(1,520)
Provision for impairment losses	3 (567)	(617)	(1,301)	(1,301)
Profit before income tax	4,549	4,024	2,697	2,455
Income tax expense	4 (756)	(664)	(430)	(394)
Net profit for the period	3,793	3,360	2,267	2,061

The notes on pages 13 to 17 are an integral part of these financial statements.

These interim financial statements on pages 8 to 17 have been accepted by the Board of Directors on 8 November 2006 and accepted by the Supervisory Council on 15 November 2006 and are signed by:

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

Mortgage and Land Bank of Latvia
Interim Condensed Consolidated and Bank Financial Statements
for the 9months period ended 30 September 2006

BALANCE SHEET

(all amounts in thousands of Lats)

	30/09/06		31/12/05	
	Group	Bank	Group	Bank
<u>Assets</u>				
Cash and balances with Central Bank	52,874	52,873	15,843	15,843
Trading securities	1,434	1,434	2,269	2,269
Other financial assets at fair value through profit or loss	-	-	8,277	8,277
Investment securities – available for sale	31,809	31,809	16,238	16,238
Due from credit institutions	46,348	46,336	20,804	20,768
Loans to customers	5 465,654	459,158	379,567	378,651
Investment properties	2,139	2,139	2,139	2,139
Investments in subsidiaries and associated undertakings	6 423	424	174	474
Intangible fixed assets	1,342	1,299	1,345	1,306
Property and equipment	8,150	7,716	8,079	7,974
Other assets	6,612	639	758	672
Deferred expenses and accrued income	731	678	696	687
Total assets	617,516	604,505	456,189	455,298
<u>Liabilities</u>				
Due to credit institutions	236,181	225,617	152,072	152,072
Due to customers	254,932	255,418	194,324	194,345
Transit funds	3,044	3,044	3,160	3,160
Mortgage bonds	7 43,465	43,465	33,627	33,627
Other liabilities	5,856	3,989	1,682	1,290
Deferred income and accrued expenses	1,367	1,291	1,024	972
Current income tax liabilities	279	279	305	305
Deferred tax liabilities	1,136	968	1,047	968
Subordinated liabilities	13,495	13,495	13,302	13,302
Total liabilities	559,755	547,566	400,543	400,041
<u>Shareholder's equity</u>				
Share capital	48,513	48,513	48,513	48,513
Reserve capital	2,129	2,063	2,063	2,063
Revaluation deficit on available for sale investments	(440)	(440)	(35)	(35)
Retained earnings	7,559	6,803	5,105	4,716
Total shareholder's equity	57,761	56,939	55,646	55,257
Total liabilities and shareholder's equity	617,516	604,505	456,189	455,298
<u>Off balance sheet items</u>				
Contingent liabilities	11,734	11,734	4,605	4,605
Financial commitments	36,052	47,675	25,033	26,915

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These interim financial statements on pages 8 to 17 have been accepted by the Board of Directors on 8 November 2006 and accepted by the Supervisory Council on 15 November 2006 and are signed by:

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

Mortgage and Land Bank of Latvia
Interim Condensed Consolidated and Bank Financial Statements
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CONSOLIDATED STATEMENT OF CHANGES IN THE GROUP'S EQUITY

(all amounts in thousands of Lats)

	Share Capital	Reserve capital	Revaluation reserve on available for sale investments	Retained earnings	Total equity
Balance as at 31 December 2004	22,820	2,063	-	845	25,728
Distribution of profit – payment for use of state capital	-	-	-	(462)	(462)
Net gains on available for sale investments	-	-	6	-	6
Profit for the 9 months period ended 2005	-	-	-	2,267	2,267
Balance as at 30 September 2005	22,820	2,063	6	2,650	27,539
Shares issued	25,693	-	-	-	25,693
Net loss on available for sale investments	-	-	(41)	-	(41)
Profit for the 3 months period ended 2005	-	-	-	2,455	2,455
Balance as at 31 December 2005	48,513	2,063	(35)	5,105	55,646
Distribution of profit – payment for use of state capital	-	-	-	(1,273)	(1,273)
Transfer to reserves	-	66	-	(66)	-
Net loss on available for sale investments	-	-	(405)	-	(405)
Profit for the period	-	-	-	3,793	3,793
Balance as at 30 September 2006	48,513	2,129	(440)	7,559	57,761

The notes on pages 13 to 17 are an integral part of these financial statements.

Mortgage and Land Bank of Latvia
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STATEMENT OF CHANGES IN THE BANK'S SHAREHOLDER'S EQUITY

(all amounts in thousands of Lats)

	Share Capital	Reserve capital	Revaluation reserve on available for sale investments	Retained earnings	Total equity
Balance as at 31 December 2004	22,820	2,063	-	783	25,666
Distribution of profit – payment for use of state capital	-	-	-	(462)	(462)
Net gains on available for sale investments	-	-	6	-	6
Profit for the period	-	-	-	2,061	2,061
Balance as at 30 September 2005	22,820	2,063	6	2,382	27,271
Shares issued	25,693	-	-	-	25,693
Net loss on available for sale investments	-	-	(41)	-	(41)
Profit for the period	-	-	-	2,334	2,334
Balance as at 31 December 2005	48,513	2,063	(35)	4,716	55,257
Distribution of profit – payment for use of state capital	-	-	-	(1,273)	(1,273)
Net loss on available for sale investments	-	-	(405)	-	(405)
Profit for the period	-	-	-	3,360	3,360
Balance as at 30 September 2006	48,513	2,063	(440)	6,803	56,939

The notes on pages 13 to 17 are an integral part of these financial statements.

Mortgage and Land Bank of Latvia
Interim Condensed Consolidated and Banks Financial Statements
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CASH FLOW STATEMENT

(all amounts in thousands of Lats)

	9 months to 30 September 2006		9 months to 30 September 2005	
	Group	Bank	Group	Bank
Cash flows from operating activities				
Profit before taxation	4,549	4,024	2,697	2,455
Depreciation and amortisation	1,677	1,609	1,535	1,520
Increase / (decrease) in provision for impairment losses	(882)	(832)	667	667
(Profit) / loss from foreign exchange revaluation	(82)	(83)	71	71
(Profit) / loss from sale of property and equipment	11	11	(13)	(13)
Increase in deferred income and accrued expenses	260	319	882	876
(Increase) / decrease in deferred expenses and accrued income	(27)	9	(653)	(680)
(Increase) / decrease in other assets	(3,753)	(340)	(344)	(234)
Increase / (decrease) in other liabilities	4,070	2,858	(561)	(623)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	5,823	7,575	4,281	4,039
(Increase) / decrease in balances due from credit institutions	(40,907)	(40,907)	(105)	(105)
Increase in loans to customers	(88,526)	(79,623)	(79,052)	(79,095)
Increase in balances due to credit institutions	78,301	67,737	76,113	76,113
Increase in balances due to customers	61,283	61,073	23,627	23,741
Decrease in transit funds	(116)	(116)	(172)	(172)
Increase in mortgage bonds issued	9,838	9,838	3,693	3,693
Increase in cash and cash equivalents from operating activities	25,696	25,577	28,385	28,214
Corporate income tax paid	(690)	(690)	(103)	(103)
Cash flows from investing activities				
Increase in investment securities	(6,459)	(6,459)	(9,712)	(9,712)
Purchases of property and equipment	(1,520)	(1,372)	(1,455)	(1,336)
Proceeds from property and equipment disposal	17	17	55	55
Acquisition of investments in associated entities	-	-	(44)	(44)
Cash and cash equivalents used in investing activities	(7,962)	(7,814)	(11,156)	(11,037)
Cash flows from financing activities				
Dividend paid	(1,273)	(1,273)	(462)	(462)
Cash and cash equivalents used in financing activities	(1,273)	(1,273)	(462)	(462)
Increase in cash and cash equivalents	15,771	15,800	16,664	16,612
Cash and cash equivalents at the beginning of the period	34,231	34,188	22,319	22,286
Effect of exchange rates on cash and cash equivalents	82	83	(71)	(71)
Cash and cash equivalents at the end of the period	50,084	50,071	38,912	38,827

The notes on pages 13 to 17 are an integral part of these financial statements.

Mortgage and Land Bank of Latvia
Interim Condensed Consolidated and Banks Financial Statements
for the 9 months period ended 30 September 2006

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

These interim financial statements on pages 8 to 17 have been accepted by the Board of Directors on 8 November 2006 and accepted by the Supervisory Council on 15 November 2006.

2 ACCOUNTING POLICIES

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

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. Comparatives were restated accordingly: property and equipment and deferred income as at 31 December 2005 were decreased by LVL 5,658 thousand and LVL 736 thousand respectively, but loans increased by LVL 4,922 thousand. In income statement for the nine months period ended 30 September 2005 other income was decreased by LVL 765 thousand, amortisation and depreciation was decreased by LVL 635 thousand, but interest income increased by LVL 130 thousand.

These interim financial statements should be read in conjunction with the 2005 annual financial statements.

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

Mortgage and Land Bank of Latvia
Interim Condensed Consolidated and Banks Financial Statements
for the 9 months period ended 30 September 2006

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 PROVISION FOR IMPAIRMENT LOSSES

	9 months to 30 September 2006		9 months to 30 September 2005	
	Group	Bank	Group	Bank
Provision expense:				
- provisions for loans	1,312	1,312	1,561	1,561
- provisions for other assets	24	24	68	68
- provisions for investments in subsidiaries and associated entities	-	50	-	-
- provisions for off balance sheet liabilities	34	34	-	-
- provisions for accrued interest income receivable	124	124	246	246
	<u>1,494</u>	<u>1,544</u>	<u>1,875</u>	<u>1,875</u>
Release of provisions:				
- provisions for loans	(713)	(713)	(496)	(496)
- provisions for other assets	(25)	(25)	-	-
- provisions for accrued interest income receivable	(189)	(189)	(78)	(78)
	<u>(927)</u>	<u>(927)</u>	<u>(574)</u>	<u>(574)</u>
Total provision for impairment losses - expense	<u>567</u>	<u>617</u>	<u>1,301</u>	<u>1,301</u>

4 INCOME TAX EXPENSE

The current and deferred income tax charge for the nine months period ended 30 September 2006 has been calculated based on the estimated annual effective income tax rate which is then applied against the actual profit for the nine months period. The annual effective income tax rate is based on the forecasted results for the whole year.

5 LOANS TO CUSTOMERS

(a) Granted loans by type of borrower	30/09/06		31/12/05	
	Group	Bank	Group	Bank
Local government	910	795	1,049	908
State owned companies	375	375	284	284
Financial institutions	-	37,152	-	28,156
Private companies	283,340	245,278	239,038	213,578
Individuals	178,608	173,282	138,780	135,371
Management / staff	3,959	3,760	3,204	3,148
Public and religious institutions	600	585	481	476
	<u>467,792</u>	<u>461,227</u>	<u>382,836</u>	<u>381,921</u>
Accrued interest on loans	1,340	1,409	1,093	1,092
Provisions for loan impairment losses	(3,478)	(3,478)	(4,362)	(4,362)
Total loans	<u>465,654</u>	<u>459,158</u>	<u>379,567</u>	<u>378,651</u>

Mortgage and Land Bank of Latvia
Interim Condensed Consolidated and Banks Financial Statements
for the 9 months period ended 30 September 2006

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 LOANS TO CUSTOMERS (continued)

(b) Analysis of movement in provisions for loan impairment losses	30/09/06		31/12/05	
	Group	Bank	Group	Bank
At the beginning of the period	4,362	4,362	4,094	4,094
Increase of provisions	1,436	1,436	2,675	2,675
Release from provisions	(902)	(902)	(1,475)	(1,475)
Adjustment (foreign exchange fluctuation)	(57)	(57)	104	104
Write-off of loans	<u>(1,361)</u>	<u>(1,361)</u>	<u>(1,036)</u>	<u>(1,036)</u>
At the end of the period	<u>3,478</u>	<u>3,478</u>	<u>4,362</u>	<u>4,362</u>

The average interest rate for the Bank's loan portfolio as at 30 September 2006 was 6.38% per annum (5.72 % at 31 December 2005).

6 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES

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

	Share capital	Total equity	Bank's share (%)	Investment value 30/09/06	Investment value 31/12/05
SIA "Hipolīzings"	300	1,193	100%	300	300
SIA "Hipotēku bankas finanšu konsultāciju centrs"	50	(347)	100%	-	50
SIA "Hipotēku bankas nekustamā īpašuma aģentūra"	50	513	100%	50	50
KS "Mazo un vidējo komersantu atbalsta fonds"	156	150	47.62%	74	74
Total				<u>424</u>	<u>474</u>

7 MORTGAGE BONDS

Total amount of the debt securities issued by the Bank as at 30 September 2006 consists of mortgage bonds in circulation with a total nominal value of LVL 44,140 thousand (as of 31 December 2005 - LVL 41,837 thousand). As at 30 September 2006, mortgage bonds with a total nominal value of LVL 933 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 43,207 thousand and a book value of LVL 43,465 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 5.2% up to 6.3% per annum depending on the maturity of mortgage bonds. The average yield to maturity of the mortgage bonds denominated in US dollars fluctuated from 6.14% up to 6.25% per annum.

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7 MORTGAGE BONDS (continued)

During the first nine months of 2006, the Bank issued CA series mortgage bonds for the total amount of EUR 20,000 thousand, but 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 as at 30 September 2006

(a) Issued mortgage bonds

ISIN	Security class	Number of mortgage bonds	Face value	Registered volume	Coupon rate, %	Maturity date	Outstanding volume, LVL	Book value LVL
LV0000800092	AG	30,000	100 LVL	3,000,000 LVL	7.5%	15.08.2007.	2,738,800	2,761,030
LV0000800118	AI	20,000	100 LVL	2,000,000 LVL	7.0%	15.08.2008.	1,977,600	2,026,925
LV0000800167	AJ	30,000	100 LVL	3,000,000 LVL	5.25%*	15.08.2008.	2,995,000	3,015,302
LV0000800183	AK	30,000	100 LVL	3,000,000 LVL	5.25%*	15.08.2009.	2,935,600	2,955,360
LV0000800266	AN	30,000	100 LVL	3,000,000 LVL	5.25%*	15.08.2010.	3,000,000	3,026,467
LV0000800100	AH	20,000	100 LVL	2,000,000 LVL	7.5%	15.08.2011.	1,129,200	1,136,562
LV0000800217	BA	100,000	100 USD	10,000,000 USD	6.25%**	15.08.2011.	3,312,000	3,338,450
LV0000800340	CA	200,000	100 EUR	20,000,000 EUR	3.69****	15.02.2012.	14,056,080	14,087,711
LV0000800142	AL	50,000	100 LVL	5,000,000 LVL	6.0%	15.08.2012.	4,690,600	4,717,266
LV0000800159	AM	70,000	100 LVL	7,000,000 LVL	5.25%	15.08.2013.	3,613,000	3,617,740
LV0000800241	BB	150,000	100 USD	15,000,000 USD	6.25%***	15.08.2014.	2,760,000	2,782,042
Total							43,207,880	43,464,855

* floating coupon rate (6 month RIGIBOR plus 0.5%) that are revised twice every year on 15th February and 15th August

** floating coupon rate (6 month LIBOR plus 0.8%) that are revised twice every year on 15th February and 15th August

*** floating coupon rate (6 month LIBOR plus 0.7%) that are revised twice every year on 15th February and 15th August

**** floating coupon rate (6 month EURIBOR plus 0.29%) that are revised twice every year on 15th February and 15th August

(b) Structure of Mortgage bond coverage

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 30 September 2006 amounted to LVL 106,236 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 105,141 thousand (as at 31 December 2005 - LVL 77,877 thousand) and substitute cover amounting to LVL 1,095 thousand (as at 31 December 2005 - LVL 5,694 thousand).

As at 30 September 2006, a ratio of substitute cover against amount of mortgage bonds in circulation (maximum statutory allowed – 20%) was 2.5% (as at 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 60.1% (as at 31 December 2005 - 55.5%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement - 10%).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7 MORTGAGE BONDS (continued)

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

M-Bonds Redemption and Coupon Payment Dates	Mortgage Bond Cover Sufficiency on the last Payment Date*	Mortgage Payments receivable		Payments of Mortgage Bonds in Circulation		Substitute Cover	Mortgage Bond Cover Sufficiency
A	1	Principal Payments	Interest Payments	Redemption Payments	Coupon Payments	6	(1+2+3-4-5+6) 7
15.02.2007	-	2,513	2,280	-	(1,162)	-	3,631
15.08.2007	2,513	3,207	3,078	(3,000)	(1,162)	-	4,636
15.02.2008	2,720	3,212	2,972	-	(1,050)	-	7,854
15.08.2008	5,932	3,426	2,863	(5,000)	(1,050)	-	6,171
15.02.2009	4,358	4,944	2,726	-	(901)	-	11,127
15.08.2009	9,302	4,070	2,583	(3,000)	(901)	-	12,054
15.02.2010	10,372	4,681	2,427	-	(822)	-	16,658
15.08.2010	15,053	3,209	2,313	(3,000)	(822)	-	16,753
15.02.2011	15,262	3,176	2,209	-	(743)	-	19,904
15.08.2011	18,438	4,028	2,101	(4,462)	(743)	-	19,362
15.02.2012	18,004	2,915	1,979	(14,056)	(597)	-	8,245
15.08.2012	6,863	3,176	1,882	(5,000)	(338)	-	6,583
15.02.2013	5,039	3,283	1,776	-	(188)	-	9,910
15.08.2013	8,322	5,838	1,645	(3,862)	(188)	-	11,755
15.02.2014	10,298	3,756	1,470	-	(86)	-	15,438
15.08.2014	14,054	31,723	4,919	(2,760)	(86)	-	47,850
15.02.2015	43,017	17,984	3,514	-	-	-	64,515
Total	-	105,141	42,737	(44,140)	(10,839)	-	-

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

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

	30/09/06	31/12/05
	Bank	Bank
Residential mortgage loans	57,245	38,855
Commercial mortgage loans	47,896	39,022
Total mortgage loans	105,141	77,877