

**MORTGAGE AND LAND BANK  
OF LATVIA**

**Interim Condensed Consolidated and Bank Financial  
Statements for the six months period ended 30 June 2007  
(unaudited)**

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**MANAGEMENT REPORT**

**2007 first half-year**

The Mortgage Bank continues successful development in 2007. During the first six months of this year, the Bank's gross assets have increased to 793.6 million lats or by 15%. The Mortgage Bank ranked eighth among Latvian commercial banks by its asset volume (market share – 4.3%) by the end of June. The unaudited profit of the Bank reached 3.7 million lats during the first half year, which is by 1.66 million lats or 81% more than the respective period of the previous year.

The gross loans' portfolio of the Mortgage Bank increased by 110.6 mln lats during the first six months of 2007 or by 23%, and reached 602 mln lats. The Mortgage Bank ranked sixth among Latvian commercial banks by its loans' portfolio volume with a market share of 4.6%. The Mortgage Bank was the 6th largest bank in Latvia by corporate loan volume (market share – 5.1%) and 7th by loan volume to natural persons (market share – 3.8%).

The volume of deposits with the Mortgage Bank has increased by 20.7 mln lats during the first six months of 2007 or 8%, and reached 294.4 mln lats. The Mortgage Bank ranked tenth among Latvian commercial banks by its deposits volume (market share – 3.4%) by the end of June.

The volume of mortgage bonds issued by the Mortgage Bank increased by 12.6 mln lats during the first six months of 2007 or 29%, reaching 56.6 mln lats. Mortgage Bank was the first in the Baltic countries' banking field to issue short-term discount notes. Issues of short-term discount notes of 10 million lats and 9 million euros took place in June. The initial offering under the Mortgage Bank short-term discount note issue program passed successfully, attracting investors from all Baltic countries.

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

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

Supported by the Mortgage Bank and organized by the Ministry of Regional Development and Local Government, a forum "Regions – development of Latvia. Visions. Opportunities. Solutions." took place on 10-11 May 2007, where Latvian and foreign experts were discussing innovative entrepreneurship opportunities and application of public and private partnership principle in implementation of substantial projects.

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

In 2007 the Mortgage Bank continues modernization and upgrade the network of its branches and subbranches. A new subbranch got opened in Liepaja at the start of the year. 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.

**THE SUPERVISORY COUNCIL AND BOARD OF DIRECTORS OF THE BANK**

**Supervisory Council (at 30 June 2007)**

Gundega Šulca	Chairman of the Council
Vija G me	Member of the Council
Andris Liepi š	Member of the Council
J nis Šnore	Member of the Council
Baiba B ne	Member of the Council
Baiba Paševica	Member of the Council
Dace Ratniece	Member of the Council
Iveta Strauti a	Member of the Council

During the reporting period, the Council member positions were vacated by Ms. Zaiga Liepi a, Mr. Uldis Apels, Ms. Linda Ka epe, Mr. M ris Klismets and Ms. Laimdota Straujuma, and Mr. Andris Liepi š, Mr. J nis Šnore, Ms. Baiba B ne, Ms. Baiba Paševica, Ms. Dace Ratniece, Ms. Iveta Strauti a were elected to be the new Council members.

**Board of Directors (at 30 June 2007)**

Inesis Feiferis	Chairman of the Board
Rolands Pa ko	Deputy Chairman of the Board
Aija Laic ne	Member of the Board
J kabs Krievi š	Member of the Board, Credit Director
Andris Rieksti š	Member of the Board

The Council elected Mr. Andris Rieksti š as a member of the Board of the Bank during the reporting period.

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**INCOME STATEMENT**

(all amounts in thousands of Lats)

	6 months to 30 June 2007		6 months to 30 June 2006	
	Group	Bank	Group	Bank
Interest income	23,367	22,351	13,243	13,032
Interest expense	(12,835)	(12,829)	(6,651)	(6,652)
<b>Net interest income</b>	<b>10,532</b>	<b>9,522</b>	<b>6,592</b>	<b>6,380</b>
Fee and commission income	1,954	1,969	2,820	2,619
Fee and commission expense	(391)	(357)	(276)	(267)
<b>Net fee and commission income</b>	<b>1,563</b>	<b>1,612</b>	<b>2,544</b>	<b>2,352</b>
Dividend income	-	500	-	-
Net trading income	996	978	302	307
Other operating income	2,402	1,787	1,916	1,021
Staff costs	(4,713)	(4,288)	(3,285)	(3,138)
Administrative expenses	(3,861)	(3,499)	(3,034)	(2,942)
Depreciation and amortisation	(1,158)	(1,114)	(1,834)	(1,085)
Provision for impairment losses	(1,325)	(1,091)	(457)	(457)
<b>Profit before income tax</b>	<b>4,436</b>	<b>4,407</b>	<b>2,744</b>	<b>2,438</b>
Income tax expense	(784)	(711)	(456)	(398)
<b>Net profit for the period</b>	<b>3,652</b>	<b>3,696</b>	<b>2,288</b>	<b>2,040</b>

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**BALANCE SHEET**

(all amounts in thousands of Lats)

	30/06/07		31/12/06	
	Group	Bank	Group	Bank
<b><u>Assets</u></b>				
Cash and balances with Central Bank	54,596	54,684	58,007	58,006
Trading securities	2,671	2,671	2,852	2,852
Investment securities – held to maturity	3,539	3,539	-	-
Investment securities – available for sale	50,325	50,325	50,174	50,174
Due from credit institutions	60,588	60,415	72,021	71,949
Derivative financial instruments	26	26	2	2
Loans to customers	597,891	600,420	499,484	489,250
Investment properties	2,253	2,253	2,253	2,253
Investments in subsidiaries and associated undertakings	422	424	422	424
Intangible fixed assets	2,080	2,015	1,314	1,264
Property and equipment	8,621	7,789	8,134	7,822
Other assets	2,487	808	2,748	622
Deferred expenses and accrued income	791	698	605	512
<b>Total assets</b>	<b>786,290</b>	<b>786,067</b>	<b>698,016</b>	<b>685,130</b>
<b><u>Liabilities</u></b>				
Due to Central Bank	-	-	-	-
Due to credit institutions	359,654	348,991	296,229	285,566
Due to customers	284,009	296,746	274,043	274,185
Derivative financial instruments	27	27	20	20
Transit funds	2,723	2,723	2,869	2,869
Issued debt securities	54,708	54,708	43,211	43,211
Other liabilities	6,561	5,899	5,160	4,604
Deferred income and accrued expenses	2,202	1,688	1,778	1,326
Current income tax liabilities	264	228	796	569
Deferred tax liabilities	898	890	899	890
Subordinated liabilities	13,302	13,302	13,302	13,302
<b>Total liabilities</b>	<b>724,348</b>	<b>725,202</b>	<b>638,307</b>	<b>626,542</b>
<b><u>Shareholder's equity</u></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	(634)	(634)	(615)	(615)
Retained earnings	11,539	10,923	9,287	8,627
<b>Total shareholder's equity</b>	<b>61,942</b>	<b>60,865</b>	<b>59,709</b>	<b>58,588</b>
<b>Total liabilities and shareholder's equity</b>	<b>786,290</b>	<b>786,067</b>	<b>698,016</b>	<b>685,130</b>
<b><u>Off balance sheet items</u></b>				
Contingent liabilities	14,130	14,130	11,891	11,891
Financial commitments	54,081	62,649	36,077	40,453

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**CONSOLIDATED STATEMENT OF CHANGES IN THE GROUP'S EQUITY**

(all amounts in thousands of Lats)

	Share Capital	Reserve capital	Revaluation deficit on available for sale investments	Retained earnings	Total equity
<b>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>
Distribution of profit – payment for use of state capital	-	-	-	(1,400)	(1,400)
Net loss on available for sale investments	-	-	(19)	-	(19)
Profit for the period	-	-	-	3,652	3,652
<b>Balance as at 30 June 2007</b>	<b>48,513</b>	<b>2,524</b>	<b>(634)</b>	<b>11,539</b>	<b>61,942</b>

**STATEMENT OF CHANGES IN THE BANK'S SHAREHOLDER'S EQUITY**

(all amounts in thousands of Lats)

	Share Capital	Reserve capital	Revaluation deficit on available for sale investments	Retained earnings	Total equity
<b>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>
Distribution of profit – payment for use of state capital	-	-	-	(1,400)	(1,400)
Net loss on available for sale investments	-	-	(19)	-	(19)
Profit for the period	-	-	-	3,696	3,696
<b>Balance as at 30 June 2007</b>	<b>48,513</b>	<b>2,063</b>	<b>(634)</b>	<b>10,923</b>	<b>60,865</b>

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**CASH FLOW STATEMENT**

(all amounts in thousands of Lats)

	6 m neši l dz 30/06/07		6 m neši l dz 30/06/07	
	Koncerns	Banka	Koncerns	Banka
<b>Cash flows from operating activities</b>				
Profit before taxation	4,436	4,407	2,744	2,438
Depreciation and amortisation	1,158	1,114	1,834	1,085
Increase / (decrease) in provision for impairment losses	531	260	(502)	(502)
(Profit) / loss from foreign exchange revaluation	18	14	(44)	(49)
(Profit) / loss from sale of property and equipment	(2)	(2)	8	8
Increase in deferred income and accrued expenses	423	362	186	109
(Increase) / decrease in deferred expenses and accrued income	(186)	(186)	(17)	-
(Increase) in other assets	146	(301)	(893)	(290)
Increase in other liabilities	1,408	1,302	154	(67)
<b>Increase in cash and cash equivalents from operating activities before changes in assets and liabilities</b>	<b>7,932</b>	<b>6,970</b>	<b>3,470</b>	<b>2,732</b>
(Increase) in balances due from credit institutions	(3,255)	(3,167)	(433)	(433)
Increase in loans to customers	(98,866)	(111,358)	(64,616)	(65,975)
Increase in trading securities	181	181	633	633
Increase in balances due to credit institutions	67,133	67,133	37,671	37,671
Increase in balances due to customers	9,966	22,561	38,958	39,034
Decrease in transit funds	(146)	(146)	(163)	(163)
Increase / (decrease) in debt securities issued	11,497	11,497	13,481	13,481
<b>Increase in cash and cash equivalents from operating activities</b>	<b>(5,558)</b>	<b>(6,329)</b>	<b>29,001</b>	<b>26,980</b>
<b>Corporate income tax paid</b>	<b>(1,316)</b>	<b>(1,052)</b>	<b>(539)</b>	<b>(539)</b>
<b>Cash flows from investing activities</b>				
Increase in investment securities	(3,690)	(3,690)	(1,923)	(1,923)
Purchases of property and equipment	(2,416)	(1,837)	(3,088)	(896)
Proceeds from property and equipment disposal	7	7	258	12
Acquisition of investments in associated entities	-	-	-	-
<b>Cash and cash equivalents used in investing activities</b>	<b>(6,099)</b>	<b>(5,520)</b>	<b>(4,753)</b>	<b>(2,807)</b>
<b>Cash flows from financing activities</b>				
Increase in share capital	-	-	-	-
Dividend paid	(1,400)	(1,400)	(1,273)	(1,273)
<b>Cash and cash equivalents used in financing activities</b>	<b>(1,400)</b>	<b>(1,400)</b>	<b>(1,273)</b>	<b>(1,273)</b>
<b>Increase in cash and cash equivalents</b>	<b>(14,373)</b>	<b>(14,301)</b>	<b>22,436</b>	<b>22,361</b>
Cash and cash equivalents at the beginning of the period	117,953	117,880	34,224	34,188
Effect of exchange rates on cash and cash equivalents	(18)	(14)	44	49
<b>Cash and cash equivalents at the end of the period</b>	<b>103,562</b>	<b>103,565</b>	<b>56,704</b>	<b>56,598</b>

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**THE PERFORMANCE RATIOS OF THE BANK**

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

**CONSOLIDATION GROUP**

No	Name of commercial company	Code of place of registration, address of registration	Type of activity of commercial company *	Share of fixed capital (%)	Voting rights in commercial company (%)	Justification for including in the Group**
1.	SIA "Hipot ku bankas nekustam pašuma a ent ra"	LV –Latvia 40003426895	CKS	100	100	MS
2.	SIA "Rapsis"	LV –Latvia 50003614071	CKS	100	100	MS
3.	SIA "Hipol zings"	LV –Latvia 40003616329	CFI	100	100	MS
4.	KS "Mazo un vid jo komersantu atbalsta fonds"	LV –Latvia 40003681329	CFI	47.62	47.62	KS

\* BNK – bank, APS – insurance company, ISA – investment company, PFO – pension fund,  
CFI – other financial institution, FPS – finance management company, CKS – other commercial company.  
\*\* MS – subsidiary; KS – joint venture; MAS – parent company.

**RATINGS ASSIGNED TO BANK BY RATING AGENCY MOODY'S INVESTORS SERVICE**

Rating type	Ratings	Rating Approval date	Rating forecast	Previous rating (approved on 8DEC2005)
For long-term foreign currency bank deposits	A2	21.12.2006.	Positive	A2
For short-term foreign currency deposits	P1	21.12.2006.	Stable	P1
The financial strength rating	D-	21.12.2006.	Stable	D-
The rating of mortgage bonds issued	A1	05.03.2007.	Positive	A1

Moody's Investors Service reports of the Bank may be found at: [www.hipo.lv](http://www.hipo.lv)  
Additional information on the ratings assigned (incl. Legend of ratings) may be found at: [www.moodys.com](http://www.moodys.com)

These interim financial reports are to be viewed along with the Bank's Annual Report for 2006.

Inesis Feiferis  
Chairman of the Board

Uvis Zem tis  
Chief Accountant