MORTGAGE AND LAND BANK OF LATVIA

Interim Condensed Consolidated and Bank Financial Statements for the 9 months period ended 30 September 2008

CONTENTS

Report of the Supervisory Council and the Board of Directors

The International Monetary Fund (IMF) forecasts that the increase of the global economy in the year 2008 will be 3.9%. In 2009 – 3.0%. The development of global economy has become slower since 2007: the development pace of the world economy was 5.1% in 2006, and 5.0% in 2007. The recession of the economy has been affected by two major factors: shocks in the financial market (mortgage crisis in the US, bankruptcies of large-scale financial institutions, credibility crisis among financial market players, tighter lending conditions), as well as rapidly leaping energy and food prices in recent years.

According to the IMF forecasts, the development pace of the European Union (EU) gross domestic product (GDP) in 2008 is expected to be 1.65%, in 2009 – 0.55%; the pace should gradually increase in further years, nonetheless not reaching the pre-crisis levels within the next 5 years. Economy growth in the developing countries (especially China and India) is expected to be rapid also in the future, which, after losing momentum in years 2008-2009 will be slightly slower than previously.

The first indications and tendencies, which would be a significant precondition for economy growth revival in the long-term, have started to appear in the second half of 2008. Regulating institutions of the Government, Central bank and other such institutions are carrying out large-scale measures for financial market rehabilitation. As a result of economic activity and purchasing power decrease, both energy and food prices have rapidly dropped. Meanwhile several international institutions emphasize that economic development in the world within next coming years may not be fully forecasted, because the financial market is still not enough perceivable and various risks still linger.

Cardinal changes now happen in the economy of Latvia after the rapid growth in previous years (2006 – 11.9%, 2007 – 8.1%). Economy harmonization measures (countering inflation, holding down lending and internal consumption) have reduced credit expansion, internal consumption and current account deficit, whereas growth of the gross domestic product has rapidly decreased, nearing recession, reaching already 4.2% decrease in the third quarter of 2008 compared with the respective period of the previous year. According to the IMF forecasts, the GDP growth pace in Latvia in 2008 will be (-0.9%) and in 2009 (-2.1%), but growth would restart only in 2010. The Bank of Latvia (LB) forecast gross domestic product (GDP) to decrease by 3.5% - 3.9% in the next year.

The major components of gross domestic product growth in previous years (operations with real estate property, trade, construction, financial mediation) have substantially decreased, and in the mean time they will not have equivalent replacements. The competitiveness of Latvian companies is materially capped by inflation and the steep climb of productions costs, as well as nosedive of demand and tightening competition in the existing sales markets.

Exports of Latvia in the first eight months of this year have increased by 13%, and imports – decreased by 3%. The growth of exports has mainly occurred at the expense of metal, chemical production and food, but partially also caused by re-export. With imports shrinking and exports growing, the external trade deficit of Latvia has decreased during the first eight months.

The decrease of domestic demand has improved the current account status – it decreased to 12.6% versus GDP in the 3rd quarter of this year compared to 25.7% in the 3rd quarter of last year. The reached deficit level should still be regarded as fairly large, which increases vulnerability of the Latvian economy to occurrences of various risks.

The inflation level in Latvia in May 2008 reached a record level (17.9%) of recent years, but, with its contributing factors fading out, the inflation gradually dropped in the following months, reaching 13.2% in October. The inflation stemming from the domestic demand has already been stopped, and the inflation stemming from global prices has reached the maximum level, which feeds the confidence of further reduction of the inflation level.

Unemployment level in the country in 3rd quarter 2008 was 5.3%. The official statistics do not yet reflect an increase in unemployment, as a part of the employees, terminated due to companies winding down their operations, may fill in the vacancies that have been protractedly vacant or low-demand, there is a job demand of seasonal nature, and people do not hurry to sign up with the unemployment register. Nevertheless, at the end of 2008 and the start of next year, the unemployment, according to Bank's expert assessment, will rise rapidly due to the expected economy recession and might reach 10%.

Report of the Supervisory Council and the Board of Directors *(continued)*

In the 2nd quarter of 2008, international credit rating agencies have lowered credit ratings of Latvia to the lowest investment level, thus indicating that reduction of ratings reflects the downward trend of the economic situation, which has turned out to be steeper than estimated. Mortgage Bank is 100% state-owned bank and its rating may not exceed the rating of the Government. Therefore the international rating agency *Moody's Investor service,* decreasing the credit rating of Latvia in September and November, decreased also the credit ratings of Mortgage Bank. The ratings assigned to the Bank are the following: long-term foreign currency bank deposits – *A3* (outlook - negative), short-term foreign currency bank deposits – *P2*, financial strength rating – *D-* (outlook - negative), rating of mortgage bonds – *A1,* which are investment level ratings.

Lending growth in Latvia has sharply decreased since the middle of 2007, affected by requirements of the inflation control plan, rise in price of credit resources, as well as increase of various credit risks. Credit market has become more visible due to the recently introduced Credit register.

Banking services in Latvia in 2008 are provided by 21 bank and five branches of foreign banks. Also, the Bank of Latvia has registered seven electronic money institutions and three money market funds. During nine months of 2008, the assets of the banks have increased by 4%, by the end of September reaching 22.8 billion lats, the volume of issued loans increased by 12%, the capital and reserves of banks increased by 7%, whereas deposits (including transit funds) decreased by 1%. The unaudited profit of banks reached 205.7 million lats during the nine months of 2008, which is by 23% less than the profit for the respective period of 2007.

Against the background of the economy growth rapidly decreasing, and with the slower rise of lending, the role of banking sector in maintaining the domestic demand has diminished, the Council of the Bank of Latvia decreased the minimum reserve requirements to liabilities of banks over 2 years several times in 2008 (last time – 13 November of this year) – the total decrease of the minimum reserve requirements from 8% to 3%, and decreased the minimum reserve requirements to all other liabilities included in the reserve base from 8% to 5%.

The US Federal Reserve system several times during this year cut the dollar base interest rate – the total reduction in rate from 4.25% to 1.0%, whereas the European Central bank reduced the base interest rate for euro – from 4% to 3.25%.

During 2008 the average interest rates of loans in lats issued by Latvian commercial banks have decreased, but increased for loans in foreign currencies. The average interest rates for loans issued to individuals (in lats) have decreased from 17.3% (December 2007) to 16.7% (September 2008), and to legal entities – from 9.7% to 7.7% within the respective period. The average interest rates for loans issued to individuals (in a foreign currency) have increased from 6.8% (December 2007) to 7% (September 2008), and to legal entities – from 7.2% to 7.9% within the respective period.

Mortgage Bank's pace of development during nine months of 2008, likewise the whole banking system, has decreased. During the first 9 months of this year, the Bank's gross assets have increased by 35.9 million lats or by 4%, to 952.4 million lats. The Mortgage Bank ranked eighth among Latvian commercial banks by its asset volume (market share – 4.2%) by the end of September. The profit of the Bank reached 2.7 million lats, that is by 2.4 million lats or by 47% less than during the respective period of the previous year.

The gross loans' portfolio of the Mortgage Bank increased by 55.1 million lats during the nine months of 2008 or by 8%, reaching 717.6 million lats. The Mortgage Bank ranked sixth among Latvian commercial banks by its loans' portfolio volume with a market share of 4.3%. The Mortgage Bank was the 8th largest bank in Latvia by corporate loan volume (market share – 5%) and 7th by loan volume to individuals (market share – 3.4%).

The volume of deposits with the Mortgage Bank has decreased by 5 million lats during the first nine months of 2008 or by 2%, reaching 274 million lats. The Mortgage Bank ranked eleventh among Latvian commercial banks by its deposits volume (including the transit funds) (market share – 2.7%) by the end of September.

The volume of debt securities issued by the Mortgage Bank has decreased by 11.4 million lats during the first nine months of 2008 or by 21%, reaching 41.9 million lats. In May this year the Bank issued mortgage bonds for 12.7 million euro, and in June redeemed short-term discount notes for 10 million lats and 9 million euro, which were the first short-term discount notes issued in the Baltic countries.

Report of the Supervisory Council and the Board of Directors *(continued)*

To furnish its clients an opportunity to conveniently place their money funds and accrue savings in pension funds, Mortgage Bank completed the procurement process of the Asset Management Company "Suprema Fondi" during the first six months of 2008 and established AS „Ieguldījumu pārvaldes sabiedrība "HIPO FONDI"" (JSC "Asset Management Company "HIPO FONDI""), as well as initiated client attraction to three 2nd pillar pension plans in all branch offices of the Bank. For this purpose, a service of individual investment portfolio management has also been developed, which is to be offered to the existing and potential clients in the nearest future.

In 2008 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 – Small and Medium Enterprises lending programme, Housing guarantees programme, rural development programmes. The Bank, being a state bank, pays particular attention to implementation of such programmes, which would help Latvian entrepreneurs continue or initiate their business even in such adverse economical conditions.

During the third quarter of 2008, implementation of the programme, co-financed by the European Social fund, "Training, consultations and financial support to self-employment or entrepreneurship start-ups" continued. The first three phases of the programme are fully completed: training of the business starters, presenting business plans to Mortgage Bank and granting financial support to start a business. 998 prospective entrepreneurs were trained under this project, 600 financial support seekers presented their business plans, of which 327 prospective entrepreneurs are receiving support in the form of grants and loans. Granting of financial support continued in the third quarter.

During the third quarter of 2008 implementation of Business start-ups lending programme, co-financed by the European Regional Development fund, was also continued. Under the programme, 311 loans have been granted, of the amount of 24.6 million lats, of which 20.6 million lats have already been disbursed to entrepreneurs.

In order to activate business in Latvia, the Cabinet of Ministers made a decision on May 22, 2008 (decree No.275) to initiate a new programme – "Support Programme for Improvement of Competitiveness of Businesses", implementation of which was entrusted to Mortgage Bank. By the end of September, 25 loans have been granted under programme, for the total amount of 9.8 million lats.

In August, Mortgage Bank initiated cooperation with *Latvian Rural women business promotion foundation* in support of business of rural women in Latvia, offering microloans for business development. Within this period, 7 loans have been granted in Bauska, Smiltene, Cēsis, Gulbene and Jēkabpils, active communication is conducted via activist groups and regional media.

This year, Mortgage Bank, in cooperation with environmental protection activist groups, have implemented a number of projects, calling the society to act friendly with respect to environment and think in long term, for instance, publishing and dissemination of the Green Guide in cooperation with the organization Green Freedom, and sand-dune preservation project together with Latvian Green Movement. Thus the Mortgage Bank presents itself as a socially responsible company.

In the 2nd quarter this year, Mortgage Bank and Aizkraukles bank concluded an agreement on implementation of small and medium enterprises lending programme, where Mortgage Bank, within the framework of syndicated loan, shall provide Aizkraukles bank with the funds required for implementation of the programme in the amount of 10 million euro.

At the start of the year, the Mortgage bank signed cooperation agreements with all the leaders of regional funds established in Latvia and council of Limbaži region on organization of Mortgage bank's project competition The Bank will support the best projects submitted to the funds' competition, projects that enhance self-initiative and activity of local population in improving their surroundings.

In the first six months, a wide educational programme on renovation of residential buildings to inhabitants and house managers – encompassing regional seminars, informative articles in the press, expert opinions, informative video clips and handouts to participation in projects coordinated by other organizations (Construction agency *Energoauditi 2008* and dwelling days, regional seminars of Latvian Consumers' Protection association).

The quality of the services provided by the Bank have not gone unnoticed by our clients. The branch offices of Mortgage bank in March participated in a campaign "Praise good service", organized by organization *Labsserviss.lv (Goodservice.lv)* (it involved 50 various Latvian companies with 800 customer service points), and Rēzekne branch office of the Bank managed top 10 of this contest.

***Report of the Supervisory Council and the Board of Directors** (continued)*

In the first nine months of this year, the Mortgage Bank continued modernization and upgrade the network of its branches and subbranches. Balvi branch office started operations in new premises in January, and in June a subbranch in Riga opened in premises of a department of the Land Book Register. Whereas Salacgrīva subbranch was closed in March as part of the optimisation of the Bank's operation. The Bank currently has 29 branches, one in each district centre of Latvia, and 8 subbranches in various regions of Latvia providing services to the customers in the whole territory of Latvia.

In the first nine months of this year, 13 new ATMs were installed in Balvi, Ādaži, Ezere, Jūrkalne, Piltene, Dobele, Cesvaine, Barkava, Rīga, Lēdmane, Rēzekne, Krāslava and Pļaviņas, thus expanding the Mortgage Bank's ATM network to 54 units. In September this year, an agreement on usage of "friendly ATMs" was concluded with SEB bank – as of October 1, clients of the Mortgage Bank may withdraw cash without extra commission fees not only from ATMs of Mortgage Bank, Rietumu bank and Latvijas Krājbanka (Savings Bank of Latvia), but also from 217 ATMs of SEB across the whole Latvia.

Baiba Bāne	Inesis Feiferis
Chairman of the Council	Chairman of the Board

The Supervisory Council and the Board of Directors of the Bank

Supervisory Council (at 30 September 2008)

Gundega Šulca	Chairman of the Council (resigned on 1 November 2008)
Andris Liepiņš	Deputy Chairman of the Council (resigned on 1 November 2008)
Vija Gēme	Member of the Council (resigned on 1 November 2008)
Jānis Šnore	Member of the Council
Baiba Bāne	Member of the Council
Baiba Paševica	Member of the Council (resigned on 1 November 2008)
Dace Ratniece	Member of the Council (resigned on 1 November 2008)
Iveta Strautiņa	Member of the Council

Supervisory Council (from 1 November 2008)

Baiba Bāne	Chairman of the Council
Dāvids Tauriņš	Deputy Chairman of the Council (appointed on 1 November 2008)
Jānis Šnore	Member of the Council
Matīss Markuss	Member of the Council (appointed on 1 November 2008)
Iveta Strautiņa	Member of the Council

In accordance with Council decision on 19 November 2008, Baiba Bāne has been elected the Chairman of the Council and Dāvids Tauriņš has been elected the Deputy Chairman of the Council.

Board of Directors (at 30 September 2008)

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

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Statement of Responsibility of the Supervisory Council and the Board of Directors

Riga 26 November 2008

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

Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the interim condensed consolidated and bank financial statements on pages 10 to 40 for the period ended 30 September 2008. Management also confirms that applicable International Financial Reporting Standards as adopted in EU have been used in preparation of the financial statements and that these financial statements have been prepared on a going concern basis. Appropriate accounting policies have been applied on a consistent basis.

Management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and the Bank and to prevent and detect fraud and other irregularities. Management is 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,

Baiba Bāne
Chairman of the Council

Inesis Feiferis
Chairman of the Board

INCOME STATEMENT
(all amounts in thousands of Lats)

	Notes	9 months to 30 September 2008		9 months to 30 September 2007	
		Group	**Bank**	**Group**	**Bank**
Interest income	4	48,743	46,839	37,230	35,532
Interest expense	5	(33,309)	(32,720)	(20,835)	(20,757)
Net interest income		**15,434**	**14,119**	**16,395**	**14,775**
Fee and commission income		3,106	3,023	3,001	3,017
Fee and commission expense		(694)	(685)	(613)	(566)
Net fee and commission income		**2,412**	**2,338**	**2,388**	**2,451**
Dividend income		13	813	-	500
Net trading income		1,566	1,535	1,608	1,577
Other operating income		3,683	2,438	3,304	2,453
Staff costs		(7,739)	(6,925)	(7,306)	(6,692)
Administrative expenses		(6,760)	(5,787)	(6,021)	(5,471)
Depreciation and amortisation		(1,772)	(1,525)	(1,799)	(1,698)
Provision for impairment losses	6	(4,531)	(4,096)	(1,950)	(1,705)
Profit before income tax		**2,306**	**2,910**	**6,619**	**6,190**
Income tax expense		(247)	(193)	(1,198)	(1,059)
Net profit for the period		**2,059**	**2,717**	**5,421**	**5,131**
Attributable to:					
Equity holders of the Bank		2,054		5,421	
Minority interest		5		-	

The notes on pages 15 to 40 are an integral part of these financial statements.

These financial statements on pages 10 to 40 have been accepted by the Board of Directors on 20 November 2008 and accepted by the Supervisory Council on 26 November 2008 and are signed by:

Baiba Bāne
Chairman of the Council

Inesis Feiferis
Chairman of the Board

BALANCE SHEET
(all amounts in thousands of Lats)

	Notes	30/09/08		31/12/07	
Assets		**Group**	**Bank**	**Group**	**Bank**
Cash and balances with Central Bank		46,710	46,710	66,265	66,265
Trading securities	7	1,829	1,829	3,269	3,269
Investment securities – held to maturity	7	65,214	65,214	13,060	13,060
Investment securities – available for sale	7	19,715	19,544	54,131	54,131
Due from credit institutions	8	89,401	89,006	104,871	104,662
Derivative financial instruments		142	142	84	84
Loans to customers	9	730,946	715,243	667,858	660,350
Investment properties		2,116	2,116	2,116	2,116
Investments in subsidiaries and associated undertakings		332	900	552	922
Intangible assets		2,421	1,927	2,018	1,927
Property and equipment		8,821	7,836	8,975	7,947
Other assets		4,652	1,284	3,580	1,005
Deferred expenses and accrued income		804	606	811	689
Total assets		**973,103**	**952,357**	**927,590**	**916,427**
Liabilities					
Due to credit institutions	11	542,006	522,985	497,302	488,738
Due to customers	12	277,336	277,834	282,124	282,550
Derivative financial instruments		810	810	130	130
Transit funds		2,467	2,467	2,575	2,575
Issued debt securities	13	40,269	40,269	52,494	52,494
Other liabilities		10,803	10,167	11,963	11,211
Deferred income and accrued expenses		2,650	1,949	2,789	2,082
Current income tax liabilities		-	-	49	-
Deferred tax liabilities		1,047	1,020	963	936
Subordinated liabilities	14	31,544	31,544	13,302	13,302
Total liabilities		**908,932**	**889,045**	**863,691**	**854,018**
Shareholder's equity					
Share capital		48,513	48,513	48,513	48,513
Reserve capital		2,524	2,063	2,524	2,063
Minority interest		32	-	-	-
Revaluation deficit on available for sale investments		(1,695)	(1,695)	(1,540)	(1,540)
Retained earnings		14,797	14,431	14,402	13,373
Total shareholder's equity		**64,171**	**63,312**	**63,899**	**62,409**
Total liabilities and shareholder's equity		**973,103**	**952,357**	**927,590**	**916,427**
Off balance sheet items					
Contingent liabilities	16	22,176	22,176	11,456	11,456
Financial commitments	16	43,740	70,514	42,495	66,125

The notes on pages 15 to 40 are an integral part of these financial statements.

These financial statements on pages 10 to 40 have been accepted by the Board of Directors on 20 November 2008 and accepted by the Supervisory Council on 26 November 2008 and are signed by:

Baiba Bāne
Chairman of the Council

Inesis Feiferis
Chairman of the Board

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

	Attributable to equity holders					
	Share Capital	**Reserve capital**	**Revaluation deficit on available for sale investments**	**Retained earnings**	**Minority interest**	**Total equity**
Balance as at 31 December 2006	**48,513**	**2,524**	**(615)**	**9,287**	**-**	**59,709**
Distribution of profit – payment for use of state capital	-	-	-	(1,400)	-	**(1,400)**
Net loss on available for sale investments	-	-	(587)	-	-	**(587)**
Profit for the 9 months period ended 2007	-	-	-	5,421	-	**5,421**
Balance as at 30 September 2007	**48,513**	**2,524**	**(1,202)**	**13,308**	**-**	**63,143**
Net loss on available for sale investments	-	-	(338)	-	-	**(338)**
Profit for the 3 months period ended 2007	-	-	-	1,094	-	**1,094**
Balance as at 31 December 2007	**48,513**	**2,524**	**(1,540)**	**14,402**	**-**	**63,899**
Distribution of profit – payment for use of state capital	-	-	-	(1,659)	-	**(1,659)**
Net loss on available for sale investments	-	-	(155)	-	-	**(155)**
Minority share of IPAS „Hipo fondi" on the date of acquisition*	-	-	-	-	27	**27**
Profit for the period	-	-	-	2,054	5	**2,059**
Balance as at 30 September 2008	**48,513**	**2,524**	**(1,695)**	**14,797**	**32**	**64,171**

* IPAS "Hipo fondi" was acquired in February 2008 and the Group owns 83% of IPAS "Hipo fondi" shares.

The notes on pages 15 to 40 are an integral part of these financial statements.

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**
Balance as at 31 December 2006	**48,513**	**2,063**	**(615)**	**8,627**	**58,588**
Distribution of profit – payment for use of state capital	-	-	-	(1,400)	**(1,400)**
Net loss on available for sale investments	-	-	(587)	-	**(587)**
Profit for the 9 months period ended 2007	-	-	-	5,131	**5,131**
Balance as at 30 September 2007	**48,513**	**2,063**	**(1,202)**	**12,358**	**61,732**
Net loss on available for sale investments	-	-	(338)	-	**(338)**
Profit for the 3 months period ended 2007	-	-	-	1,015	**1,015**
Balance as at 31 December 2007	**48,513**	**2,063**	**(1,540)**	**13,373**	**62,409**
Distribution of profit – payment for use of state capital	-	-	-	(1,659)	**(1,659)**
Net loss on available for sale investments	-	-	(155)	-	**(155)**
Profit for the period	-	-	-	2,717	**2,717**
Balance as at 30 September 2008	**48,513**	**2,063**	**(1,695)**	**14,431**	**63,312**

The notes on pages 15 to 40 are an integral part of these financial statements.

CASH FLOW STATEMENT

(all amounts in thousands of Lats)

	9 months to 30 September 2008		9 months to 30 September 2007	
	Group	**Bank**	**Group**	**Bank**
Cash flows from operating activities				
Profit before taxation	2,306	2,910	6,619	6,190
Depreciation and amortisation	1,772	1,525	1,799	1,698
Increase in provision for impairment losses	3,190	2,755	736	491
(Profit) / loss from foreign exchange revaluation	(49)	(20)	-	30
Profit from sale of property and equipment	(136)	(1)	(1)	(1)
Increase in deferred income and accrued expenses	349	377	1,076	934
(Increase) / decrease in deferred expenses and accrued income	7	83	(104)	(107)
Increase in other assets	(1,268)	(475)	(1,253)	(1,449)
Increase / (decrease) in other liabilities	(480)	(364)	6,504	6,302
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**5,691**	**6,790**	**15,376**	**14,088**
Increase in balances due from credit institutions	(13,020)	(13,020)	(14,695)	(14,695)
Increase in loans to customers	(64,875)	(56,246)	(129,623)	(131,715)
Decrease in trading securities	1,440	1,440	1,562	1,562
Increase in balances due to credit institutions	15,775	5,188	125,381	127,588
Increase / (decrease) in balances due to customers	(4,788)	(4,716)	8,814	9,285
Decrease in transit funds	(108)	(108)	(110)	(110)
Increase / (decrease) in debt securities issued	(12,225)	(12,225)	8,719	8,719
Cash and cash equivalents generated from / (used in) operating activities	**(72,110)**	**(72,897)**	**15,424**	**14,722**
Corporate income tax paid	(674)	(619)	(1,747)	(1,400)
Cash flows from investing activities				
Increase in investment securities	(19,157)	(18,986)	(2,596)	(2,596)
Purchases of property and equipment	(2,003)	(1,427)	(3,374)	(2,537)
Proceeds from property and equipment disposal	118	14	22	7
Proceeds from investments in associated entities disposal	220	22	-	-
Acquisition of investments in associated entities	-	-	-	(500)
Cash and cash equivalents used in investing activities	**(20,822)**	**(20,377)**	**(5,948)**	**(5,626)**
Cash flows from financing activities				
Proceeds from subordinated debt	18,242	18,242	-	-
Dividend paid	(1,659)	(1,659)	(1,400)	(1,400)
Cash and cash equivalents generated from / (used in) financing activities	**16,583**	**16,583**	**(1,400)**	**(1,400)**
Increase / (decrease) in cash and cash equivalents	**(77,023)**	**(77,310)**	**6,329**	**6,296**
Cash and cash equivalents at the beginning of the period	131,936	131,857	121,395	121,322
Effect of exchange rates on cash and cash equivalents	49	20	-	(30)
Cash and cash equivalents at the end of the period	**54,962**	**54,567**	**127,724**	**127,588**

The notes on pages 15 to 40 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The operations of the Bank are regulated by the law On Credit Institutions and other effective laws of the Republic of Latvia, the Statutes of the Bank, the instructions of the Bank of Latvia and Financial 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 10 to 40 have been accepted by the Board of Directors on 20 November 2008 and accepted by the Supervisory Council on 26 November 2008.

2 ACCOUNTING POLICIES

(1) Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". These interim financial statements should be read in conjunction with the 2007 annual financial statements which have been prepared in accordance with IFRSs.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held as available-for-sale, trading securities, 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.

Recent volatility in global and Latvian financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Group's and the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's and the Bank's business in the current circumstances.

Impact on liquidity:
The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Group and the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Disappearance of an active market for quoted financial instruments:
As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for fixed income securities quoted on market and, as such, in the opinion of management fixed income securities quoted on market is no longer being quoted on an active market in accordance with

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

IAS 39.AG71. In the reporting period the Bank reclassified certain securities from trading and available for sale categories to held to maturity category. Reclassification of trading securities was done in accordance with the IASB issued amendments to IAS 39 *Financial Instruments* where an entity is permitted to transfer securities out of the trading category if the asset is no longer held for the purpose of selling it in the near term and the entity has the intention and ability to hold the asset long term. Reclassification of available for sale securities was done in accordance with IAS 39 *Financial Instruments,* paragraph 54 where in the rare circumstance that a reliable measure of fair value is no longer available it becomes appropriate to carry a financial asset at cost or amortised cost. Reclassifications took place as of 1 July 2008. The fair value carrying amount of trading and available for sale securities on 1 July 2008 became their new cost or amortised cost. See Note 7.

Impact on collateral:
The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Latvia for many types of collateral, especially real estate, has been severely affected by the local economic slowdown resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

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

The accounting policies used in the preparation of the interim financial statements for the period ended 30 September 2008 are consistent with those used in the annual financial statements for the year ended 31 December 2007, except as referred to above in the "Disappearance of an active market for quoted financial instruments" section.

(2) Loans and receivables

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans are recognised when cash is advanced to borrowers.

For the purposes of these financial statements, finance lease receivables are included in loans and advances to customers.

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 based on similarities of credit risk involved, loan size, quality and loan terms are also established. 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.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Loans and receivables (continued)

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.

(3) Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances. The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(2). The Group uses stress tests to determine possible impact of changes in one or more variables used in estimation of the provision for impairment losses on the financial result. To the extent that past due loans in the existing loan portfolio increase by 1%, the provision would be estimated higher by LVL 650 thousand.
- Impairment on available for sale investments and held to maturity. The Group and the Bank determines that available for sale and held to maturity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group and the Bank evaluates among other factors, the volatility in market price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

(4) Income taxes

Income tax expense is recognised in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the weighted average effective annual income tax rate changes. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period

(5) Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group and the Bank from 1 January 2008. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's and the Bank's operations and the nature of their impact on the Group's and the Bank's accounting policies:

- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- *IFRIC 12, Service Concession Agreements* (effective for annual periods beginning on or after 1 January 2008);
- *IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

The new IFRIC interpretations 11, 12 and 14 did not significantly affect the Group's and the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(5) Adoption of New or Revised Standards and Interpretations (continued)

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2009 or later periods and which the Group and the Bank has not early adopted:

- *IAS 1, Presentation of Financial Statements* (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group and the Bank expects the revised IAS 1 to impact the presentation of its financial statements but to have no impact on the recognition or measurement of specified transactions and balances.
- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group and the Bank is currently assessing what impact the standard will have on segment disclosures in the financial statements.
- IAS 23, *Borrowing Costs* (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group and the Bank is currently assessing the impact of the amended standard on the financial statements.
- IFRS 3, *Business combinations (revised on 10 January 2008; effective for annual periods beginning on or after 1 July 2009).* The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The Group and the Bank is currently assessing the impact of the amended standard on the financial statements.
- IAS 27, *Consolidated and separate financial statements* (revised on 10 January 2008; effective for annual periods beginning on or after1 July 2009). IAS 27 (revised) requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. The Group and the Bank is currently assessing the impact of the amended standard on the financial statements
- Amendment to IFRS 2 dealing with vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009, subject also to EU adoption for certain territories). It clarifies that only service conditions and performance conditions are vesting conditions. As such these features need to be included in the grant date fair value for transactions with employees and do not impact the number of awards expected to vest or the valuation subsequent to grant date. It also specifies that all cancellations, should receive the same accounting treatment. The Group and the Bank is currently assessing the impact of the amended standard on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(5) Adoption of New or Revised Standards and Interpretations (continued)

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest rate method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group and the Bank does not expect the amendments to have any material effect on the financial statements.

3 RISK MANAGEMENT

The Group and the Bank manages all the major risks affecting the operation of the Group and the Bank in accordance with the Risk Management Policy approved by the Council of the Bank. The 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 Group or the Bank would suffer other losses or would not derive the planned profit.

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

- while assuming the risks the Group and the Bank shall be capable of implementing the aims and assignments defined in its development strategy in a longer run;
- the Group and the Bank shall operate by maintaining an optimum balance between profitability and safeguarding against the risks, i.e. the profitability must be as large as possible, however, the Group and the Bank shall not be exposed to the risks;
- risk assessment and management shall be an integral component of the every-day functions of the Group and the Bank;

In accordance with their authority and competence the employees of the Group and the Bank shall know a customer and understand fully the nature of each transaction (operation) to be able to identify and assess the risks associated with the transaction (operation) and find the best solution both for the customer and the Group or the Bank;

- the Group and the Bank shall assess the probable losses that it might incur by assuming the risks and avoid extraordinary losses in its operation;
- the Group and the Bank shall identify and assess the probable risks before launching of new products or services or entering new markets;
- where necessary, the Group and the Bank shall reduce the risk limits, sell the assets subject to the risk or even leave the respective markets should these be assessed as excessively risky.

In managing the risks the Group and the Bank applies various methods for measuring the risks, sets the limits and maintains the appropriate controls. All risk policies are approved by the Council.

NOTES TO THE FINANCIAL STATEMENTS

3 RISK MANAGEMENT (continued)

Credit Risk

The Group and the Bank is subject to the credit risk. The credit risk is the risk of the customer or co-operation partner not being able to or refusing to meet its liabilities towards the Group or the Bank in full amount and due time.

The Group and the Bank manages the credit risk according to the Credit Policy as well as internal regulations, procedures and instructions of credit operations.

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

The Bank's Risk Management Committee monitors the credit risk, including credit risk concentrations, and the quality of the credit portfolio, whereas central, regional and branch credit committees are taking decisions on the credit risk within the approved limits. The Bank's Risk Management Department is responsible for analysis of the credit risk concentration, setting and controlling the limits as well as the evaluation of the quality of the credit portfolio, whereas the Bank's Loan Department and Treasury Department is responsible for daily credit risk management in lending operations and operations with financial instruments respectively.

The Group and the Bank monitors the credit risk by assessing the creditworthiness and adequacy of collateral of the customer or counterparty on a regular basis as well as controls the credit risk at the level of customer, related customers and sectors of economy according to the risk limits set at the Group and the Bank.

The Group and the Bank manages credit risk concentrations according to the Risk Exposures Controlling Policy that stipulates the methods of analysis of the credit risk concentrations and its controlling instruments including limits on credit risk concentrations. Credit risk concentrations is managed by measuring and setting limits on the following concentrations:

- ratio of large exposure concentration and own funds (internal limit - 400%, limit set by the Law on Credit Institutions – 800%), as of 30.09.2008. was 47% (as of 31.12.2007.-79%);
- ratio of single client's (related clients' group) large exposure and own funds, which can not exceed 25%, as of 30.09.2008. was 14.4% (as of 31.12.2007.-16.6%);
- proportion of risk concentration in single economic sector in the Bank's credit portfolio and own funds as of 30.09.2008. was 185.5% (as of 31.12.2007.-195.9%);
- ratio of risk exposures with persons related to the Bank and own funds, which can not exceed 15%, as of 30.09.2008. was 2.3% (as of 31.12.2007.-6.1%).

Since the Bank's strategy is not focused on servicing the non-residents business, the proportion of the Bank's total claims to non-residents was small and as of 30.09.2008. was 7.4% (as 31.12.2007.–7.7%) of the Bank's total assets. The Group and the Bank manages the country risk that results from the lending operations to non-residents according to the Country Risk Management Policy.

Liquidity Risk

The liquidity risk relates to the ability of the Group and the Bank 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 Risk Management Policy of the Bank stipulates the principles for management of liquidity risk. The Bank shall ensure that the liquid assets are not less than 30% (set by the FCMC) of its short-term liabilities at all times. The Assets and Liabilities Committee of the Bank stipulates the guidelines for liquidity risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the liquidity risk. To evaluate the liquidity risk, the Bank uses the GAP method. The Bank has set liquidity net position limit in each significant currency and total liquidity net position limit as well as maximum deposit amount from a single depositor to control the liquidity risk. Liquidity ratio (min – 30%) as of 30.09.2008. was 78.8% (as of 31.12.2007.-101.7%).

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, affect the cash flow and financial results of the Group and the Bank. The Currency Risk Management Policy of the Bank stipulates the principles for the management of the foreign currency risk.

The Group and the Bank controls the foreign currency risk by imposing limits on the open currency positions for each currency and all currencies together consolidating in lats and by complying with the open currency

NOTES TO THE FINANCIAL STATEMENTS

3 RISK MANAGEMENT (continued)

position limits established in the law On Credit Institutions.
The Assets and Liabilities Committee of the Bank stipulates the guidelines for foreign currency risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the foreign currency risk.

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 Group and the Bank. To assess the interest rate risk the Bank analyses the maturity structure of the assets and liabilities sensitive to the changes in interest rates and susceptibility of the maturity structure to the potential fluctuations of the interest rates on a regular basis.
The Assets and Liabilities Management Committee monitors the interest rate risk, whereas the Treasury Department is responsible for the daily management of the interest rate risk. The Bank has set limit on changes in economic value of the Bank at 10% of own funds and limit on changes in net interest income at 2% of own funds which as of 30.09.2008. were 9.8% (as of 31.12.2007.-7.96%) and 1.54% (as of 31.12.2007.-0.93%) respectively.

Operational risk
The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group and the Bank, for example human mistake or fraud, disturbances in the operation of the information systems, insufficient control procedures or their ignorance. The Group and the Bank manages operational risk according to the Operational Risk Management Policy. The Internal Control System provides for management and control of the operational risk in the Group and the Bank. The Group and the Bank uses self-assessment method to measure the operational risk, whereas the Bank's operational risk information system is used to identify, analyse and control the operational risk. The structural units of the Group and the Bank are responsible for the management of the operational risk in the daily operations, but the Risk Management Committee monitor the operational risk. The Risk Management Department is responsible for the implementation of operational risk management in the Group and the Bank.
The Bank has implemented Business continuity plan that includes guidelines on actions to be taken by the Bank, its structural units and employees at occurrence of risks that can have substantial negative effect on the Bank's operations.

Capital Adequacy
Capital adequacy shows those capital resources of the Group and the Bank needed to cover the credit and market risks arising from asset-side and off-balance sheet positions.
As at 30 September 2008 the capital adequacy ratio of the Bank calculated according to the regulations of the Financial and Capital Market Commission were 9.6% (as of 31.12.2007.-9.9%) which exceeded the minimum of 8%.

NOTES TO THE FINANCIAL STATEMENTS

4 INTEREST INCOME

	9 months to 30 September 2008		9 months to 30 September 2007	
	Group	**Bank**	**Group**	**Bank**
Interest income:				
- Interest on balances due from credit institutions	4,833	4,828	2,875	2,875
- interest on loans to customers	40,508	38,613	32,167	30,469
- interest on investments in securities	3,401	3,398	2,188	2,188
	48,742	**46,839**	**37,230**	**35,532**
Cash flow from interest received	47,221	45,316	35,976	34,213

5 INTEREST EXPENSE

	9 months to 30 September 2008		9 months to 30 September 2007	
	Group	**Bank**	**Group**	**Bank**
Interest expense:				
- interest on balances due to credit institutions	20,253	19,660	11,393	11,069
- interest on current and deposit accounts	9,531	9,535	6,788	7,034
- interest on transit funds	117	117	110	110
- interest on subordinated liabilities	1,180	1,180	580	580
- interest on mortgage bonds issued	2,196	2,196	1,933	1,933
- other interest expense	32	32	31	31
	33,309	**32,720**	**20,835**	**20,757**
Cash flow from interest paid	30,852	30,179	19,448	19,271

6 PROVISION FOR IMPAIRMENT LOSSES

	9 months to 30 September 2008		9 months to 30 September 2007	
	Group	**Bank**	**Group**	**Bank**
Provision expense:				
- provisions for loans	3,175	2,739	2,173	1,928
- provisions for other assets	159	159	159	159
- provisions for securities	1,419	1,419	-	-
- provisions for off balance sheet liabilities	-	-	4	4
- provisions for accrued interest income receivable	512	512	264	264
	5,265	**4,829**	**2,600**	**2,355**
Release of provision:				
- provisions for loans	(395)	(394)	(470)	(470)
- provisions for other assets	(43)	(43)	(68)	(68)
- provisions for off balance sheet liabilities	-	-	(43)	(43)
- provisions for accrued interest income receivable	(296)	(296)	(69)	(69)
	(734)	**(733)**	**(650)**	**(650)**
Total provision for impairment losses - expense	**4,531**	**4,096**	**1,950**	**1,705**

NOTES TO THE FINANCIAL STATEMENTS

7 TRADING AND INVESTMENT SECURITIES

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Trading securities				
Latvian Treasury bills and government bonds	129	129	-	-
Non-OECD government bonds	-	-	619	619
Latvian corporate bonds	1,037	1,037	453	453
OECD corporate bonds	341	341	1,275	1,275
Non-OECD corporate bonds	211	211	712	712
Equity shares in Latvian corporate entities	66	66	100	100
Equity shares in OECD corporate entities	45	45	80	80
Equity shares in non-OECD corporate entities	-	-	30	30
Total trading securities	**1,829**	**1,829**	**3,269**	**3,269**
Securities held to maturity				
OECD government bonds	1,239	1,239	-	-
Non-OECD government bonds	8,984	8,984	35	35
OECD corporate bonds	24,933	24,933	-	-
Non-OECD corporate bonds	14,291	14,291	-	-
Latvian corporate bonds	17,186	17,186	13,025	13,025
Total securities held to maturity	**66,633**	**66,633**	**13,060**	**13,060**
Securities available-for-sale				
Latvian Treasury bills and government bonds	18,286	18,286	13,342	13,342
OECD government bonds	-	-	2,040	2,040
Non-OECD government bonds	-	-	8,586	8,586
OECD corporate bonds	1,006	1,006	16,034	16,034
Non-OECD corporate bonds	252	252	12,710	12,710
Latvian corporate bonds	-	-	1,419	1,419
Other investment	171	-	-	-
Total securities available-for-sale	**19,715**	**19,544**	**54,131**	**54,131**
Provisions for impairment losses on securities	(1,419)	(1,419)	-	-
Total net trading and investment securities	**86,758**	**86,587**	**70,460**	**70,460**

In the reporting period the Bank established an impairment provision of LVL 1,419 thousand for American investment bank Lehman Brothers bonds. The amount of the provision was established based on the management’s estimates made with respect to recoverable amount. As at 30 September 2008 the gross value of Lehman Brothers bonds was LVL 1,892 thousand..

NOTES TO THE FINANCIAL STATEMENTS

7 TRADING AND INVESTMENT SECURITIES (continued)

Reclassified amounts are provided in the table below:

Reclassified from / to	Reclassified financial assets	Fair value on date of reclassification
Reclassified from *trading* to *held to maturity*	Bonds	2,562
Reclassified from *available for sale to held to maturity*	Bonds	48,206
Total		**50,768**

Changes in income statement in the result of reclassification of securities are provided in the table below:

	9 months to 30 September 2008	
	Bank	**Bank**
	Before reclassification	After reclassification
Profit from trading and revaluation of securities	46	158
Interest income	3,358	3,398
Impairment losses on securities	(1,419)	(1,419)

If no reclassification of available for sale securities was made as of 1 July 2008, the revaluation deficit on available for sale investments included in equity as at 30 September 2008 would be LVL 4,658 thousand.

The following table shows the division of the Group's debt securities by rating agency designation (*Moody`s investors Service*) as at 30 September 2008:

	Trading securities	Investment securities available-for-sale	Securities held to maturity	Total net
Aaa	-	-	476	**476**
Aa1 - Aa3	287	-	17,041	**17,328**
A1 - A3	-	1,006	9,615	**10,621**
Baa1 - Baa3	129	18,286	11,841	**30,256**
Lover than Baa3	1,187	252	20,407	**21,846**
Unrated	115	-	5,834	**5,949**
Total	**1,718**	**19,544**	**65,214**	**86,476**

The following table shows the division of the Group's debt securities by rating agency designation (*Moody`s Investors Service*) as at 31 December 2007:

	Trading securities	Investment securities available-for-sale	Securities held to maturity	Total net
Aaa	554	975	-	**1,529**
Aa1 - Aa3	369	8,114	-	**8,483**
A1 - A3	352	24,535	-	**24,887**
Baa1 - Baa3	450	11,534	-	**11,984**
Lover than Baa3	1,081	8,223	1,797	**11,101**
Unrated	253	750	11,263	**12,266**
Total	**3,059**	**54,131**	**13,060**	**70,250**

All securities are quoted on stock exchange. The average yield on investment securities as at 30 September 2008 was 6.7% (2007: 6.6%).

NOTES TO THE FINANCIAL STATEMENTS

8 DUE FROM CREDIT INSTITUTIONS

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Due from credit institutions registered in OECD countries	4,179	4,179	14,555	14,555
Due from credit institutions registered in Latvia	69,119	68,724	76,537	76,328
Due from credit institutions registered in other countries	16,103	16,103	13,779	13,779
	89,401	**89,006**	**104,871**	**104,662**

At 30 September 2008 the Bank had correspondent accounts with 21 banks (2007: 19 banks).

The average interest rate on balances due from credit institutions as at 30 September 2008 was 5.5% (2007: 5.5%).

9 LOANS TO CUSTOMERS

Loans by type of borrower:

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Central governments	50	-	7,040	7,028
Local government	1,969	1,550	2,179	1,688
State owned companies	3,015	3,015	2,353	2,353
Financial institutions	448	82,018	414	85,186
Private companies	490,640	407,134	428,055	348,549
Individuals	229,391	216,955	222,736	211,256
Management / staff	7,975	6,313	6,853	5,708
Public and religious institutions	615	595	714	684
Total gross loans	**734,103**	**717,580**	**670,344**	**662,452**
Accrued interest on loans	3,637	3,668	2,520	2,550
Provisions for impairment losses on loans	(6,794)	(6,005)	(5,006)	(4,652)
Total net loans	**730,946**	**715,243**	**667,858**	**660,350**

99.9% from loans issued by the Bank and the Group are loans to Latvia residents.

NOTES TO THE FINANCIAL STATEMENTS

9 LOANS TO CUSTOMERS (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Agriculture and forestry	103,521	88,125	90,868	80,105
Fishing	4,614	4,515	5,536	5,430
Manufacturing	89,778	77,713	68,877	56,652
Electricity, gas and water utilities	7,313	7,195	7,818	7,687
Construction	35,013	29,910	15,615	9,706
Retail trade and wholesale distribution	58,638	48,033	50,019	39,347
Hotels and restaurants	25,358	24,800	17,860	17,396
Transport, warehousing and communications	44,393	17,631	43,641	15,082
Financial intermediaries	844	82,094	9,079	93,671
Real estate	91,882	87,851	96,886	97,192
Municipal authorities	2,019	1,550	9,227	8,716
Individuals	237,366	223,268	229,589	216,964
Other industries	33,364	24,895	25,329	14,504
Total gross loans	**734,103**	**717,580**	**670,344**	**662,452**

Analysis of loans by type of valuation and by risk groups:

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Individually assessed loans				
Standard	224,250	307,939	265,730	352,318
Watch list	9,554	9,554	6,823	6,823
Below standard	5,310	6,141	3,977	4,892
Doubtful	1,199	1,199	701	701
Lost	-	-	181	181
Provisions for impairment losses on loans	(3,668)	(3,668)	(2,906)	(2,906)
Individually assessed loans, net	**236,645**	**321,165**	**274,506**	**362,009**
Loans assessed on a group basis				
Homogenous groups of loans	497,427	396,415	395,452	300,087
Provisions for impairment losses on loans	(3,126)	(2,337)	(2,100)	(1,746)
Loans assessed on a group basis, net	**494,301**	**394,078**	**393,352**	**298,341**
Total net loans	**730,946**	**715,243**	**667,858**	**660,350**

The following table provides the division of loans and advances to customers by quality:

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Loans not impaired				
Loans that are not past due	263,275	346,966	246,788	333,376
Past due loans	46,058	46,058	21,130	21,130
Impaired loans				
Loans that are not past due	335,714	264,093	345,534	271,936
Past due loans	92,693	64,131	59,412	38,560
Total loans	**737,740**	**721,248**	**672,864**	**665,002**
Provisions for impairment losses on loans	(6,794)	(6,005)	(5,006)	(4,652)
Total net loans	**730,946**	**715,243**	**667,858**	**660,350**

NOTES TO THE FINANCIAL STATEMENTS

9 LOANS TO CUSTOMERS (continued)

Analysis of movement in provisions for loan impairment losses

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
As at beginning of the year	5,006	4,652	3,599	3,599
Increase of provisions	3,687	3,251	4,131	3,748
Release from provisions	(691)	(690)	(955)	(947)
Adjustment (foreign exchange fluctuation)	2	2	(33)	(33)
Write-off of loans	(1,210)	(1,210)	(1,736)	(1,715)
As at end of the year	**6,794**	**6,005**	**5,006**	**4,652**

Maturity profile:

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Overdue	6,043	5,079	3,092	2,377
Falling due within:				
1 month	16,242	13,322	18,342	16,507
1 – 3 months	33,059	27,078	31,044	24,309
3 – 6 months	48,246	40,448	53,589	47,433
6 –12 months	83,791	69,733	64,500	53,124
1 – 5 years	286,072	224,313	262,442	200,891
more than 5 years	264,287	341,275	239,855	320,361
Total loans	**737,740**	**721,248**	**672,864**	**665,002**
Less provision for loan impairment loss	(6,794)	(6,005)	(5,006)	(4,652)
Total net loans to customers	**730,946**	**715,243**	**667,858**	**660,350**

The following table provides the division of loans and advances to customers past due:

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Loans that are not past due	598,989	611,059	592,322	605,312
Past due up to 30 days	79,160	62,251	53,777	40,710
Past due 30-60 days	20,472	12,922	14,483	9,640
Past due 60-90 days	10,094	6,845	6,302	3,971
Past due over 90 days	29,025	28,171	5,980	5,369
Total loans	**737,740**	**721,248**	**672,864**	**665,002**
Less provision for loan impairment loss	(6,794)	(6,005)	(5,006)	(4,652)
Total net loans to customers	**730,946**	**715,243**	**667,858**	**660,350**

The average interest rate for the loan portfolio as at 30 September 2008 was 7.7% per annum (7.5% at 31 December 2007).

NOTES TO THE FINANCIAL STATEMENTS

10 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 30/09/08	Investment value 31/12/07
SIA "Hipolīzings"	645	1,101	100%	300	300
SIA "Hipotēku bankas nekustamā īpašuma aģentūra"	50	514	100%	50	50
SIA „Risku investīciju sabiedrība"	500	513	100%	500	500
KS „Mazo un vidējo komersantu atbalsta fonds"	106	99	47.62%	50	72
Total				**900**	**922**

11 DUE TO CREDIT INSTITUTIONS

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Due to credit institutions registered in OECD area	531,698	512,677	491,450	482,886
Due to credit institutions registered in Latvia	10,308	10,308	5,852	5,852
	542,006	**522,985**	**497,302**	**488,738**

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
On demand	2,907	2,907	36	36
Term balances	539,099	520,078	497,266	488,702
	542,006	**522,985**	**497,302**	**488,738**

The average interest rate for due to credit institutions as at 30 September 2008 was 5.3% (at 31 December 2007: 5.0%).

12 DUE TO CUSTOMERS

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Central government	4,486	4,486	-	-
Local government	6,130	6,130	6,720	6,720
State owned companies	3,952	4,407	5,885	5,885
Financial institutions	30,890	30,890	26,319	26,656
Private companies	31,291	31,334	36,971	37,058
Individuals	191,685	191,685	200,670	200,670
Public and religious organisations	5,370	5,370	2,663	2,663
	273,804	**274,302**	**279,228**	**279,652**
Accrued interest	3,532	3,532	2,896	2,898
Total due to customers	**277,336**	**277,834**	**282,124**	**282,550**

NOTES TO THE FINANCIAL STATEMENTS

12 DUE TO CUSTOMERS (continued)

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
On demand	68,175	68,652	79,310	79,413
Term balances	209,161	209,182	202,814	203,137
Total due to customers	**277,336**	**277,834**	**282,124**	**282,550**

99.5% of the deposits with the Bank are the Bank's liabilities to residents of Latvia, the remaining 0.5% of the deposits are liabilities to other countries residents.

The average interest rate for demand deposits at 30 September 2008 was 0.4% (0.5% at 31 December 2007), for term deposits – 5.9% (5.8% at 31 December 2007).

13 ISSUED DEBT SECURITIES

	30/09/08	31/12/07
	Bank	**Bank**
Mortgage bonds	40,629	37,317
Other debt securities	-	15,177
Total	**40,269**	**52,494**

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

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

During the first nine months of 2008, the Bank issued C01CC series mortgage bonds for total amount of EUR 12,739 thousand, but redeemed LVL 4,050 thousand of AI und AJ series mortgage bonds, LVL 10,000 thousand and EUR 9,047 thousand of P01AO and P01CB series debt securities.

The average annual interest rate of the issued securities was 5.8% (as at 31 December 2007: 5.9%).

Statement on Mortgage bond coverage as at 30 September 2008

(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
LV0000800183	AK	30,000	100 LVL	3,000,000	6.5%*	15.08.2009.	2,999,600	3,024,513
LV0000800266	AN	30,000	100 LVL	3,000,000	7.625%*	15.08.2010.	3,000,000	3,034,531
LV0000800100	AH	20,000	100 LVL	2,000,000	7.5%	15.08.2011.	1,119,000	1,127,683
LV0000800217	BA	100,000	100 USD	10,000,000	3.875%**	15.08.2011.	2,709,450	2,722,888
LV0000800688	C01CC	250,000	100 EUR	25,000,000	5.70%	15.02.2011.	7,898,814	7,898,993
LV0000800340	CA	200,000	100 EUR	20,000,000	5.4375***	15.02.2012.	14,014,193	14,111,569
LV0000800142	AL	50,000	100 LVL	5,000,000	6.0%	15.08.2012.	4,638,000	4,667,505
LV0000800159	AM	70,000	100 LVL	7,000,000	5.25%	15.08.2013.	3,671,300	3,681,767
						Total	**40,050,357**	**40,269,449**

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

NOTES TO THE FINANCIAL STATEMENTS

13 ISSUED DEBT SECURITIES (continued)

(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 2008 amounted to LVL 126,875 thousand (as at 31 December 2007: LVL 145,788 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans (ordinary cover) in the amount of LVL 121,293 thousand (as at 31 December 2007: LVL 142,053 thousand) and substitute cover amounting to LVL 5,582 thousand (as at 31 December 2007: LVL 3,735 thousand).

As at 30 September 2008, a ratio of substitute cover against amount of mortgage bonds in circulation (maximum statutory allowed – 20%) was 13.3% (as at 31 December 2007: 10.1%), while the amount of assets included in the Mortgage Bond Cover Register exceeds the amount of mortgage bonds in circulation by 70.0% (as at 31 December 2007: 77.1%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

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

M-Bonds Redemption and Coupon Payment Dates	Mortgage Bond Cover Sufficiency on the last Payment Date*	Mortgage Payments receivable		Payments of Mortgage Bonds in Circulation		Substitute Cover	Mortgage Bond Cover Sufficiency
		Principal Payments	Interest Payments	Redemption Payments	Interest Payments		(1+2+3-4-5+6)
A	1	2	3	4	5	6	7
15.02.2009	-	8,491	3,238	-	(1,200)	-	(10,529)
15.08.2009	8,491	6,783	3,932	(3,000)	(1,200)	-	(15,006)
15.02.2010	12,274	6,348	3,638	-	(1,103)	-	(21,157)
15.08.2010	18,622	3,805	3,456	(3,000)	(1,103)	-	(21,780)
15.02.2011	19,427	3,863	3,309	(8,953)	(988)	-	(16,658)
15.08.2011	14,337	4,561	3,149	(4,066)	(733)	-	(17,248)
15.02.2012	14,832	3,339	3,001	(14,056)	(634)	-	(6,482)
15.08.2012	4,115	3,407	2,877	(5,000)	(251)	-	(5,148)
15.02.2013	2,522	3,566	2,744	-	(101)	-	(8,731)
15.08.2013	6,088	5,129	2,602	(3,863)	(101)	-	(9,855)
15.02.2014	7,354	3,882	2,442	-	-	-	(13,678)
15.08.2014	11,236	54,535	21,290	-	-	-	(87,061)
15.02.2015	65,771	13,584	5,303	-	-	-	(84,658)
Total		**121,293**	**60,981**	**(41,938)**	**(7,414)**		**-**

* mortgage Bond Cover sufficiency on the last Payment Date is calculated: figures shown 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

	30/09/08 Bank	31/12/07 Bank
Residential mortgage loans	72,405	81,388
Commercial mortgage loans	48,888	60,665
Total	**121,293**	**142,053**

NOTES TO THE FINANCIAL STATEMENTS

14 SUBORDINATED DEBT

On 31 March 2008, an agreement was concluded between the Bank and the State Treasury on issuing of a subordinated debt of EUR 30,000 thousand, with a maturity of 30 April 2015 and an interest rate of 5.78 % as at 30 September 2008.

In the reporting period the Bank repaid subordinated debt of LVL 3,300 thousand.

15 CASH AND CASH EQUIVALENTS

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Cash	6,899	6,899	7,374	7,374
Placements with the Bank of Latvia	39,811	39,811	58,891	58,891
Placements with other credit institutions	2,218	1,823	21,552	21,343
Placements with other credit institutions with remaining maturity up to 3 months	52,727	52,727	61,883	61,883
Placements from other credit institutions with remaining maturity up to 3 months	(46,693)	(46,693)	(17,764)	(17,634)
	54,962	**54,567**	**131,936**	**131,857**

16 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES

	30/09/08		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Contingent liabilities				
outstanding guarantees	22,176	22,176	11,456	11,456
Financial commitments				
unutilised loan facilities	43,127	69,901	40,781	64,411
other	613	613	1,714	1,714

17 POST BALANCE SHEET EVENTS

To ensure the stability of the financial system of the country, on 8 November 2008 the Cabinet of Ministers of the Republic of Latvia assigned the Bank to take over the control of a/s „Parex banka" by acquisition of 51% of its shares. Based on this decision, on 10 November 2008 Ministry of Finance, the Bank and a/s „Parex banka" signed agreement on takeover of a controlling interest in a/s „Parex banka" by the state and transfer of 51% of shares to the Bank for the total consideration of 2 (two) lats.

On 7 November 2008 rating agency Moody`s Investors Service decreased the Bank's long term and short term currency rating from A2 to A3 and from Prime-1 to Prime-2. Changes in the rating are related to the changes in local and foreign currency ratings of the Republic of Latvia from A2 to A3 as well as downturn of the economic environment of the Republic of Latvia.

NOTES TO THE FINANCIAL STATEMENTS

18 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings as at 30 September 2008 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	Total
ASSETS							
Cash and balances with the Central Bank	46,710	-	-	-	-	-	**46,710**
Securities	2,891	1,455	3,195	7,254	61,403	10,560	**86,758**
Investment properties	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	37,477	17,294	4,517	24,235	5,878	-	**89,401**
Derivative financial instruments	6	1	2	133	-	-	**142**
Loans to customers	20,836	32,679	47,962	83,276	283,905	262,288	**730,946**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	332	**332**
Intangible assets	-	-	-	-	-	2,421	**2,421**
Property and equipment	-	-	-	-	-	8,821	**8,821**
Other assets	-	-	-	-	-	4,652	**4,652**
Deferred expenses and accrued income	-	-	-	-	-	804	**804**
Total assets	**107,920**	**51,429**	**55,676**	**114,898**	**351,186**	**291,994**	**973,103**
LIABILITIES AND SHAREHOLDERS EQUITY							
Due to credit institutions	5,923	40,653	6,118	36,278	404,954	48,080	**542,006**
Due to customers	195,439	27,230	15,390	33,126	5,669	482	**277,336**
Derivative financial instruments	541	240	25	4	-	-	**810**
Transit funds	-	214	-	154	1,344	755	**2,467**
Mortgage bonds		-	309	2,999	36,961	-	**40,269**
Other liabilities	-	-	-	-	-	10,803	**10,803**
Deferred income and accrued expenses	-	-	-	-	-	2,650	**2,650**
Current income tax liability	-	-	-	-	-	-	**-**
Deferred tax liabilities	-	-	-	-	-	1,047	**1,047**
Subordinated debt	-	-	460	-	10,000	21,084	**31,544**
Shareholder's equity	-	-	-	-	-	64,171	**64,171**
Total liabilities and shareholder's equity	**201,903**	**68,337**	**22,302**	**72,561**	**458,928**	**149,072**	**973,103**
Net liquidity	(93,983)	(16,908)	33,374	42,337	(107,742)	142,922	**-**
<u>**As at 31 December 2007**</u>							
Total assets	**165,713**	**43,396**	**65,659**	**78,407**	**306,051**	**268,364**	**927,590**
Total liabilities and shareholder's equity	**129,538**	**68,094**	**59,852**	**105,682**	**440,108**	**124,316**	**927,590**
Net liquidity	**36,175**	**(24,698)**	**5,807**	**(27,275)**	**(134,057)**	**144,048**	-

NOTES TO THE FINANCIAL STATEMENTS

18 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings as at 30 September 2008 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	**Total**
ASSETS							
Cash and balances with the Central Bank	46,710	-	-	-	-	-	**46,710**
Securities	2,891	1,455	3,195	7,083	61,403	10,560	**86,587**
Investment properties	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	37,205	17,294	4,394	24,235	5,878	-	**89,006**
Derivative financial instruments	6	1	2	133	-	-	**142**
Loans to customers	16,984	26,749	40,229	69,339	222,630	339,312	**715,243**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	900	**900**
Intangible assets	-	-	-	-	-	1,927	**1,927**
Property and equipment	-	-	-	-	-	7,836	**7,836**
Other assets	-	-	-	-		1,284	**1,284**
Deferred expenses and accrued income	-	-	-	-	-	606	**606**
Total assets	**103,796**	**45,499**	**47,820**	**100,790**	**289,911**	**364,541**	**952,357**
LIABILITIES AND SHAREHOLDERS EQUITY							
Due to credit institutions	5,923	40,653	6073	17,302	404,954	48,080	**522,985**
Due to customers	195,917	27,230	15,390	33,146	5,669	482	**277,834**
Derivative financial instruments	541	240	25	4	-	-	**810**
Transit funds		214		154	1,344	755	**2,467**
Mortgage bonds	-	-	309	2,999	36,961	-	**40,269**
Other liabilities	-	-	-	-	-	10,167	**10,167**
Deferred income and accrued expenses	-	-	-	-	-	1,949	**1,949**
Current income tax liability	-	-	-	-	-	-	**-**
Deferred tax liabilities	-	-	-	-	-	1,020	**1,020**
Subordinated debt	-	-	460	-	10,000	21,084	**31,544**
Shareholder's equity	-	-	-	-		63,312	**63,312**
Total liabilities and shareholder's equity	**202,381**	**68,337**	**22,257**	**53,605**	**458,928**	**146,849**	**952,357**
Net liquidity	**(98,585)**	**(22,838)**	**25,563**	**47,185**	**(169,017)**	**217,692**	**-**
<u>As at 31 December 2007</u>							
Total assets	**162,965**	**36,688**	**59,526**	**67,076**	**244,731**	**345,441**	**916,427**
Total liabilities and shareholder's equity	**129,964**	**67,964**	**59,852**	**97,248**	**440,108**	**121,291**	**916,427**
Net liquidity	**33,001**	**(31,276)**	**(326)**	**(30,172)**	**(195,377)**	**224,150**	-

NOTES TO THE FINANCIAL STATEMENTS

19 RE-PRICING MATURITY ANALYSIS

The table below allocates the Group's assets and liabilities to maturity groupings as at 30 September 2008 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates.

	Up to 1 month	1 to 3 month	3 to 6 month	6 to 12 month	1 to 5 years	Over 5 years	Non-interest bearing	**Total**
ASSETS								
Cash and balances with the Central Bank	46,710	-	-	-	-	-	-	**46,710**
Securities	12,634	16,742	4,734	4,235	37,742	10,560	111	**86,758**
Investment properties	-	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	48,437	27,016	3,675	10,183	90	-	-	**89,401**
Derivative financial instruments	6	1	2	133	-	-	-	**142**
Loans to customers	121,239	237,729	222,120	36,877	98,627	14,354	-	**730,946**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	-	332	**332**
Intangible assets	-	-	-	-	-	-	2,421	**2,421**
Property and equipment	-	-	-	-	-	-	8,821	**8,821**
Other assets	-	-	-	-	-	-	4,652	**4,652**
Deferred expenses and accrued income	-	-	-	-	-	-	804	**804**
Total assets	**229,026**	**281,488**	**230,531**	**51,428**	**136,459**	**24,914**	**19,257**	**973,103**
LIABILITIES AND SHAREHOLDERS EQUITY								
Due to credit institutions	137,417	309,731	76,769	18,089	-	-	-	**542,006**
Due to customers	195,439	27,230	15,390	33,126	5,669	482	-	**277,336**
Derivative financial instruments	541	240	25	4	-	-	-	**810**
Transit funds	-	2,467	-	-	-	-	-	**2,467**
Mortgage bonds	-	-	21,980	-	18,289	-	-	**40,269**
Other liabilities	-	-	-	-	-	-	10,803	**10,803**
Deferred income and accrued expenses	-	-	-	-	-	-	2,650	**2,650**
Deferred income and accrued expenses	-	-	-	-	-	-	-	**-**
Current income tax liability	-	-	-	-	-	-	1,047	**1,047**
Subordinated debt	-	-	460	-	10,000	21,084	-	**31,544**
Shareholder's equity	-	-	-	-	-	-	64,171	**64,171**
Total liabilities and shareholder's equity	**333,397**	**339,668**	**114,624**	**51,219**	**33,958**	**21,566**	**78,671**	**973,103**
On balance sheet interest sensitivity analysis	(104,371)	(58,180)	115,907	209	102,501	3,348	(59,414)	-
As at 31 December 2007								
Total assets	**334,037**	**180,307**	**246,780**	**17,300**	**107,868**	**23,036**	**18,262**	**927,590**
Total liabilities and shareholder's equity	**145,488**	**498,521**	**111,104**	**56,499**	**22,184**	**14,131**	**79,663**	**927,590**
On balance sheet interest sensitivity analysis	**188,549**	**(318,214)**	**135,676**	**(39,199)**	**85,684**	**8,905**	**(61,401)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

19 RE-PRICING MATURITY ANALYSIS (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings as at 30 September 2008 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates.

	Up to 1 month	1 to 3 month	3 to 6 month	6 to 12 month	1 to 5 years	Over 5 years	Non-interest bearing	**Total**
ASSETS								
Cash and balances with the Central Bank	46,710	-	-	-	-	-	-	**46,710**
Securities	12,634	16,742	4,734	4,064	37,742	10,560	111	**86,587**
Investment properties	-	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	48,165	27,016	3,552	10,183	90			**89,006**
Derivative financial instruments	6	1	2	133	-	-	-	**142**
Loans to customers	113,032	148,305	303,964	37,764	97,824	14,354		**715,243**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	-	900	**900**
Intangible assets	-	-	-	-	-	-	1,927	**1,927**
Property and equipment	-	-	-	-	-	-	7,836	**7,836**
Other assets	-	-	-	-	-	-	1,284	**1,284**
Deferred expenses and accrued income	-	-	-	-	-	-	606	**606**
Total assets	**220,547**	**192,064**	**312,252**	**52,144**	**135,656**	**24,914**	**14,780**	**952,357**
LIABILITIES AND SHAREHOLDERS EQUITY								
Due to credit institutions	137,417	309,731	57,748	18,089	-	-	-	**522,985**
Due to customers	195,917	27,230	15,390	33,146	5,669	482	-	**277,834**
Derivative financial instruments	541	240	25	4	-	-	-	**810**
Transit funds	-	2,467	-	-	-	-	-	**2,467**
Mortgage bonds	-		21,980	-	18,289	-	-	**40,269**
Other liabilities	-	-	-	-	-	-	10,167	**10,167**
Deferred income and accrued expenses	-	-	-	-	-	-	1,949	**1,949**
Deferred income and accrued expenses	-	-	-	-	-	-	-	**-**
Current income tax liability	-	-	-	-	-	-	1,020	**1,020**
Subordinated debt	-	-	460	-	10,000	21,084		**31,544**
Shareholder's equity	-	-	-	-	-	-	63,312	**63,312**
Total liabilities and shareholder's equity	**333,875**	**339,668**	**95,603**	**51,239**	**33,958**	**21,566**	**76,448**	**952,357**
On balance sheet interest sensitivity analysis	**(113,328)**	**(147,604)**	**216,649**	**905**	**101,698**	**3,348**	**(61,668)**	**-**
As at 31 December 2007								
Total assets	**326,005**	**181,049**	**246,701**	**17,131**	**107,438**	**23,287**	**14,816**	**916,427**
Total liabilities and shareholder's equity	**145,914**	**489,957**	**111,104**	**56,499**	**22,184**	**14,131**	**76,638**	**916,427**
On balance sheet interest sensitivity analysis	**180,091**	**(308,908)**	**135,597**	**(39,368)**	**85,254**	**9,156**	**(61,822)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

20 CURRENCY ANALYSIS OF ASSETS AND LIABILITIES

The following table provides the analysis of the Group's assets, liabilities and shareholders' equity as well as memorandum items outstanding as at 30 September 2008 by currency profile:

	LVL	USD	EUR	Other	**Total**
ASSETS					
Cash and balances with the Central Bank	44,532	472	1,346	360	**46,710**
Securities	16,275	19,291	51,192	-	**86,758**
Investment properties	2,116	-	-	-	**2,116**
Due from credit institutions	53,260	17,901	18,019	221	**89,401**
Derivative financial instruments	123,305	8,030	599,067	544	**730,946**
Loans to customers	142	-	-	-	**142**
Investment in subsidiaries and associated undertakings	900	-	-	-	**332**
Intangible assets	1,927	-	-	-	**2,421**
Property and equipment	7,836	-	-	-	**8,821**
Other assets	4,609	6	33	4	**4,652**
Deferred expenses and accrued income	684	6	112	2	**804**
Total assets	**255,586**	**45,706**	**669,769**	**1,131**	**973,103**
LIABILITIES AND SHAREHOLDERS EQUITY					
Due to credit institutions	9,523	-	532,309	174	**542,006**
Due to customers	155,093	23,368	98,558	317	**277,336**
Derivative financial instruments	810	-	-	-	**810**
Transit funds	448	-	2,019	-	**2,467**
Mortgage bonds	15,536	2,722	22,011	-	**40,269**
Other liabilities	10,646	137	20	-	**10,803**
Deferred income and accrued expenses	2,640	1	9	-	**2,650**
Current income tax liability	-	-	-	-	**-**
Deferred tax liabilities	1,020	-	-	-	**1,047**
Subordinated debt	10,145	-	21,399	-	**31,544**
Shareholders equity	63,312			-	**64,171**
Total liabilities and shareholder's equity	**269,173**	**26,228**	**676,325**	**491**	**973,103**
Spot foreign exchange receivables / (payables)	(708)	131	562	10	(5)
Forward foreign exchange receivables / (payables)	19,672	(21,126)	1,576	(532)	(410)
Currency position	**5,377**	**(1,517)**	**(4,418)**	**118**	**(415)**

<u>As at 31 December 2007</u>

	LVL	USD	EUR	Other	Total
Total assets	**274,836**	**42,204**	**609,944**	**606**	**927,590**
Total liabilities and shareholder's equity	**285,734**	**30,252**	**611,160**	**444**	**927,590**
Spot foreign exchange receivables / (payables)	696	142	(893)	49	(6)
Forward foreign exchange receivables / (payables)	11,925	(12,462)	492	-	(45)
Currency position	**1,723**	**(368)**	**(1,617)**	**211**	**(51)**

NOTES TO THE FINANCIAL STATEMENTS

20 CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as memorandum items outstanding as at 30 September 2008 by currency profile:

	LVL	USD	EUR	Other	**Total**
ASSETS					
Cash and balances with the Central Bank	44,532	472	1,346	360	**46,710**
Securities	16,104	19,291	51,192	-	**86,587**
Investment properties	2,116	-	-	-	**2,116**
Due from credit institutions	53,056	17,901	17,828	221	**89,006**
Derivative financial instruments	122,310	8,041	584,348	544	**715,243**
Loans to customers	142	-	-	-	**142**
Investment in subsidiaries and associated undertakings	900	-	-	-	**900**
Intangible assets	1,927	-	-	-	**1,927**
Property and equipment	7,836	-	-	-	**7,836**
Other assets	1,241	6	33	4	**1,284**
Deferred expenses and accrued income	486	6	112	2	**606**
Total assets	**250,650**	**45,717**	**654,859**	**1,131**	**952,357**
LIABILITIES AND SHAREHOLDERS EQUITY					
Due to credit institutions	9,523	-	513,288	174	**522,985**
Due to customers	155,530	23,372	98,615	317	**277,834**
Derivative financial instruments	810	-	-	-	**810**
Transit funds	448	-	2,019	-	**2,467**
Mortgage bonds	15,536	2,722	22,011		**40,269**
Other liabilities	10,010	137	20	-	**10,167**
Deferred income and accrued expenses	1,939	1	9	-	**1,949**
Current income tax liability	-	-	-	-	**-**
Deferred tax liabilities	1,020	-	-	-	**1,020**
Subordinated debt	10,145	-	21,399	-	**31,544**
Shareholders equity	63,312	-	-	-	**63,312**
Total liabilities and shareholder's equity	**268,273**	**26,232**	**657,361**	**491**	**952,357**
Spot foreign exchange receivables/ (payables)	(708)	131	562	10	(5)
Forward foreign exchange receivables / (payables)	19,672	(21,126)	1,576	(532)	(410)
Currency position	**1,341**	**(1,510)**	**(364)**	**118**	**(415)**

<u>As at 31 December 2007</u>

	LVL	USD	EUR	Other	Total
Total assets	**271,218**	**42,191**	**602,412**	**606**	**916,427**
Total liabilities and shareholder's equity	**283,575**	**30,256**	**602,152**	**444**	**916,427**
Spot foreign exchange receivables / (payables)	696	142	(893)	49	(6)
Forward foreign exchange receivables / (payables)	11,925	(12,462)	492	-	(45)
Currency position	**264**	**(385)**	**(141)**	**211**	**(51)**

NOTES TO THE FINANCIAL STATEMENTS

21 CAPITAL ADEQUACY CALCULATION

Based on the requirements set by the Financial and Capital Market Commission (FCMC), the Group's and the Bank's equity to be utilised in the capital adequacy ratio as at 30 September 2008 has been calculated as follows:

	30/09/2008	
	Group	**Bank**
Tier 1		
- paid-in share capital	48,513	48,513
- legal and other reserves	2,551	2,063
- audited retained earnings	11,005	9,976
- negative revaluation reserve on investment securities available-for-sale	(1,695)	(1,695)
- intangible assets	(2,421)	(1,927)
Total Tier 1	**57,953**	**56,930**
Tier 2		
- subordinated capital (restricted to 50% of Tier 1)	28,976	28,465
Total Tier 2	**28,976**	**28,465**
Deductions from capital		
- specific decrease in Tier 1 and Tier 2 set by legislation	(1,510)	(1,510)
Total deductions from capital	**(1,510)**	**(1,510)**
Capital base	**85,419**	**83,885**

The total of Tier 2 may not exceed the total of Tier 1.

NOTES TO THE FINANCIAL STATEMENTS

21 CAPITAL ADEQUACY CALCULATION (continued)

The following table shows the Group's asset weightings used in calculation of capital adequacy ratio according to the FCMC requirements and calculation of the Group's capital adequacy ratio according to the FCMC requirements:

	Credit equivalent	Balance	Risk weighted assets
Assets and off-balance sheet items			
Claims or contingent claims on central governments or central banks		68,132	2,841
Claims or contingent claims on regional governments or local authorities		718	718
Claims or contingent claims on multilateral development banks		-	-
Claims or contingent claims on institutions		127,369	68,859
Claims in the form of covered bonds		13,206	6,603
Claims or contingent claims on corporates		656,414	622,156
Claims or contingent claims secured on real-estate property		-	-
Retail claims or contingent retail claims		116,723	85,073
Past due items		28,259	32,053
Other claims		25,635	18,838
Derivative financial instruments	243	142	54
Deductions from capital:			
Intangible assets		2,421	-
Total assets and off-balance sheet items		**1,039,019**	**837,195**
Calculation of capital requirements			
Capital requirement for the Group's portfolio credit risk	8%		66,976
Operational risk capital requirement			3,827
Capital requirements for market risk			-
Capital requirement for the Group's portfolio credit risk and market risk			**70,803**
Capital base			**85,419**
Capital adequacy ratio (Capital base / Capital requirement x 8%)			**9.7%**

NOTES TO THE FINANCIAL STATEMENTS

21 CAPITAL ADEQUACY CALCULATION (continued)

The following table shows the Bank's asset weightings used in calculation of capital adequacy ratio according to the FCMC requirements and calculation of the Bank's capital adequacy ratio according to the FCMC requirements:

	Credit equivalent	Balance	Risk weighted assets
Assets and off-balance sheet items			
Claims or contingent claims on central governments or central banks		68,132	2,841
Claims or contingent claims on regional governments or local authorities		718	718
Claims or contingent claims on multilateral development banks		-	-
Claims or contingent claims on institutions		126,802	68,292
Claims in the form of covered bonds		13,206	6,603
Claims or contingent claims on corporates		667,486	619,840
Claims or contingent claims secured on real-estate property		-	-
Retail claims or contingent retail claims		116,723	85,073
Past due items		28,259	32,053
Other claims		21,652	14,855
Derivative financial instruments	243	142	54
Deductions from capital:			
Intangible assets		1,927	-
Total assets and off-balance sheet items		**1,045,047**	**830,329**
Calculation of capital requirements			
Capital requirement for the Group's portfolio credit risk	8%		66,426
Operational risk capital requirement			3,539
Capital requirements for market risk			-
Capital requirement for the Group's portfolio credit risk and market risk			**69,965**
Capital base			**83,885**
Capital adequacy ratio (Capital base / Capital requirement x 8%)			**9.6%**