MORTGAGE AND LAND BANK OF LATVIA

Interim Condensed Consolidated and Bank Financial Statements for the nine months period ended 30 September 2009 (unaudited)

MORTGAGE AND LAND BANK OF LATVIA
MANAGEMENT REPORT

9 months of 2009

Although to speak of convalescence of the national economy in Latvia on the whole is way too early, a further macro economic stabilisation can be observed – with the consequences of economy overheating and imbalance diminishing, deficit of the current account is already replaced by a surplus and the inflation continues to decrease, some industries show signs of convalescence.

Nevertheless, the actual gross domestic product (GDP) continued to reduce. The recession was driven by a considerable drop in the domestic demand, and a weak external demand. A drop in exports along with an extremely rapid shrinkage of the volume of imports entailed improvement of the external balance of goods and services. Low demand and lack of financial resources were the main impeding factors of development in all branches of the national economy. It is difficult to attract the funds to convalescence of the economy as the financial market has very limited and rather expensive funds, the credit risk has increased considerably and banking sector concentrates on improvement of quality of the existing portfolio.

In 2009 the banking services in Latvia are provided by 21 banks and eight branches of foreign banks. During nine months of 2009, the assets of the banks have decreased by 7%, reaching 21.6 billion lats at the end of September, the volume of loan portfolio decreased by 5%, deposits (including the transit funds) - by 8%, and the capital and reserves of the banks – by 10%. In the nine months of 2009 the unaudited losses of banks reached 579 million lats mostly due to accumulation of provisions for non-profit loans.

To the contrary of the trend in the banking sector, the volume of gross assets of the Mortgage Bank increased by 67.2 million lats or 7% reaching 1.03 billion lats in nine months of the year 2009. Due to the global deterioration of the economic situation, with the risk of granted loans rising, Mortgage bank has accumulated the provisions for doubtful assets in the amount of 29 million lats this year. The losses of the Bank for the reporting period were 11.9 million lats, and the retained earnings of the bank for previous years were 12 million lats.

Within nine months of 2009 the gross loans' portfolio of the Mortgage Bank has decreased by 7.8 million lats or 1%, reaching 723.8 million lats. The lending volume under the Support Programme for Improvement of Competitiveness of Businesses, implemented by the Bank, has increased by 49 million lats this year.

Within nine months of 2009 the volume of deposits with the Mortgage Bank has decreased by 27 million lats or 9%, to 275 million lats.

In the 2009, the Bank made a repayment of 27 million euro (19 million lats) syndicated loans and other interbank long-term loans, and accrued funds for repayments of syndicated loans scheduled for the second half of the year, thus the volume of the Bank's investments into securities of Latvian government has increased to 93 million lats.

In January 2009 the equity capital of the Bank was increased by 29.5 million lats or 61%. The capital adequacy ratio was 11.4% at the end of September, which considerably exceeds the statutory minimum of 8% as directed by the Law on Credit Institutions. Another capital increase yet by 43 million lats is to be done in the fourth quarter of 2009.

In February 2009 the Mortgage Bank and Privatisation Agency concluded a share purchase agreement on sale of shares of Parex Bank owned by Mortgage Bank to Privatisation Agency.

In the third quarter of 2009 the Mortgage Bank proceeded with implementation of various development programmes, on behalf of the government, providing support to certain groups of entrepreneurs and population – Support Programme for Improvement of Competitiveness of Businesses, Microlending Programmes. Being state-owned, the Mortgage Bank pays particular attention to competitiveness raising loans aimed to help the Latvian entrepreneurs to continue with their business in the circumstances of economic downslide and financial crisis. The Bank also launched implementation of a new programme, co-financed by the European Social Fund, "Support to Self-employment and Business Start-ups".

On 17 February 2009, with the aim to boost entrepreneurship in Latvia, the Cabinet of Ministers passed Regulations No. 164 on lending to improve the competitiveness of businesses. As directed by these Regulations, the Mortgage Bank shall grant investment and working capital loans to small, medium and large entrepreneurs. In May, the Mortgage Bank received the first 50 million euro (35.1 million lats) for implementation of this programme from the Nordic Investment Bank, and the remaining 50 million euro (35.1 million lats) got transferred in July.

On March 10, 2009 the Cabinet adopted regulations No 238 regarding Activity 2.2.1.4 "Loans for Raising of Business Competitiveness" of the Supplement of Action Programme "Business and Innovations" that prescribe establishment of the Loan Fund as a separate financial resources unit in the Mortgage Bank for lending to the entrepreneurs under Cabinet Regulations No 164 (regarding loans for raising of competitiveness of businesses). The Loan Fund consists of the public financing in the amount of 61.6 million euro (43.3 million lats) and financing of the Mortgage Bank – 21.6 million euro (15.2 million lats). Lending from the Loan Fund was initiated in May of this year. 84.4 million lats had been granted under the programme by the end of September, including 19.7 million lats from the Loan Fund.

In the first quarter of this year, in accordance with the Cabinet Decree No 752 dated 2 December 2008, the Mortgage Bank commenced implementation of the Small and Medium Enterprises Microlending Programme granting microloans up to 3 thousand lats. The total financing volume of the programme is 564.8 thousand lats. By the end of September, the Mortgage Bank had granted microloans for the total amount of 244 thousand lats.

In compliance with the Cabinet of Ministers Regulations No 293, passed on 31 March 2009, "On Action Programme "Human Resources and Employment" supplement 1.3.1.2. activity "Support to Self-employment and Business Start-ups"", in August the Mortgage Bank initiated implementation of the Start programme, which provides training in business fundaments to business start-ups as well as consultations in preparing a business plan. In case of a positive decision of a lending committee, the participant of the programme receives a loan and grants for implementation of the project described in the business plan. By the end of September, 189 applicants had applied for consultations and training, 10 business plans had been submitted to the bank. Granting of the financial support was launched in October.

In spring the Bank signed co-operation agreements with the leaders of all five regional funds established in Latvia (funds of Valmiera, Talsi, Alūksne, Liepāja and Lielvārde) as well as councils of Limbaži, Ogre and Ērgļi regions, and Jūrkalne parish council on organisation of project competition. The Bank supports the best projects promoting initiative and activity of local population in improvement of their surrounding environment submitted to the fund's competition.

This is the third recurrent year since the Mortgage Bank participates in the campaign "Praise good service!" This year record high number of companies – 75 joined the campaign. The clients of the Mortgage Bank have appreciated quality of the Bank's services by ranking Preiļi Branch among the top ten most praised places of good service.

The project "Good practice", organized by the Mortgage Bank in cooperation with the Riga Technical University, was concluded in September. It encompassed a contest of projects, with the aim to stimulate the interest of students and improve their knowledge in their chosen branch of engineering studies, providing them with one-month of field practice during summer in a Latvian enterprise. 11 students were granted practice spots in client companies of the Mortgage Bank and other industry leaders in Latvia.

At the beginning of 2009 the international rating agencies started gradual downgrade of the credit ratings of Latvia. Standard & Poor's Rating Services and Fitch Ratings downgraded Latvia's sovereign credit ratings to BB+ that was a speculative rating, noting that the downgrading reflected the worsening of the economic situation faster than anticipated. Moody's Investors Service Ltd downgraded the sovereign rating on Latvia to the lowest investment grade rating Baa3. The Mortgage Bank is 100% owned by state and its rating may not exceed Latvia's sovereign rating. For this reason Moody's Investors Service Ltd lowered the credit ratings of the Mortgage Bank along with the downgrading of the sovereign rating. The Bank is assigned the following ratings:

- long-term foreign currency deposits – *Baa3*,
- short-term foreign currency deposits – *P3*,
- financial strength rating – *E+*,
- rating of mortgage bonds – *Baa2*,

which are investment grade ratings.

At the end of the 3rd quarter of 2009, the Bank serviced its clients in 29 branches located in Riga and district centres of Latvia and 8 sub-branches in various regions of country. The Management of the Bank has made a decision to start optimization of the Mortgage Bank's branch and sub-branch network. As a result of it, by the 1st November of 2009, Sigulda sub-branch of Ūnija branch and the sub-branch of Liepāja branch will be closed. Balvi and Ludza branches will be transformed into sub-branches. Whereas Valka branch and Smiltene sub-branch are going to exchange their status between them. These reorganizations will result in higher efficiency and reduced costs.

15 new ATMs were installed in the first three quarters of 2009. By the end of the 3rd quarter of 2009 the ATM network of the Mortgage Bank was expanded to 70 ATMs. The customers of Mortgage Bank can withdraw cash without commission fee being applied from ATMs of the Mortgage Bank (70 ATMs), Rietumu banka (14 ATMs), Latvijas Krājbanka (202 ATMs), SEB banka (226 ATMs) and Parex Bank (144 ATMs) located throughout Latvia. At the end of the 3rd quarter of 2009, the ATM network of Mortgage Bank and "friendly ATMs" constituted 656 ATMs or slightly more than a half of the total ATM network of Latvia.

Supervisory Council (at 30 September 2009)

Baiba Bāne	Chairman of the Council
Dāvids Tauriņš	Deputy Chairman of the Council
Baiba Brigmane	Member of the Council

During the reporting period, the following Council members resigned: Ms. Iveta Strautiņa, Mr. Jānis Šnore and Mr. Matīss Markuss. Ms. Baiba Brigmane was appointed as Council members.

Board of Directors (at 30 September 2009)

Rolands Paņko	Chairman of the Board
Jēkabs Krieviņš	Deputy Chairman of the Board
Andris Riekstiņš	Member of the Board
Jānis Bērziņš	Member of the Board

On 10 August 2009 Inesis Feiferis resigned from the Board.

In accordance with Council decision on 10 August 2009, Rolands Paņko has been elected the Chairman of the Board and Jēkabs Krieviņš has been elected the Deputy Chairman of the Board.

During the reporting period Aija Laicāne resigned from the Board and Jānis Bērziņš as was appointed as member of the Board.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

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 for the period ended 30 September 2009. 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.

INCOME STATEMENT
(all amounts in thousands of Lats)

	9 months to 30 September 2009		9 months to 30 September 2008	
	Group	**Bank**	**Group**	**Bank**
Interest income	42,879	41,193	48,743	46,839
Interest expense	(23,647)	(23,306)	(33,309)	(32,720)
Net interest income	**19,232**	**17,887**	**15,434**	**14,119**
Fee and commission income	3,176	2,971	3,106	3,023
Fee and commission expense	(731)	(726)	(694)	(685)
Net fee and commission income	**2,445**	**2,245**	**2,412**	**2,338**
Dividend income	1	48	13	813
Net trading income	4,830	4,837	1,566	1,535
Other operating income	6,326	4,660	3,683	2,438
Staff costs	(7,273)	(6,487)	(7,739)	(6,925)
Administrative expenses	(5,764)	(5,035)	(6,760)	(5,787)
Depreciation and amortisation	(1,537)	(1,392)	(1,772)	(1,525)
Provision for impairment losses	(31,668)	(29,668)	(4,531)	(4,096)
Profit before income tax	**(13,408)**	**(12,905)**	**2,306**	**2,910**
Income tax expense	1,004	1,006	(247)	(193)
Net profit for the period	**(12,404)**	**(11,899)**	**2,059**	**2,717**
Attributable to:				
Equity holders of the Bank	(12,424)	-	2,054	-
Minority interest	20	-	5	-

BALANCE SHEET
(all amounts in thousands of Lats)

	30/09/09		31/12/08	
Assets	**Group**	**Bank**	**Group**	**Bank**
Cash and balances with Central Bank	38,941	38,941	45,115	45,115
Trading securities	6,876	6,706	3,859	3,711
Investment securities – held to maturity	49,337	49,281	64,070	63,969
Investment securities – available for sale	87,466	87,466	26,296	26,296
Due from credit institutions	95,358	95,253	65,587	65,334
Derivative financial instruments	679	679	1,581	1,581
Loans to customers	689,613	699,748	742,386	726,575
Investment properties	1,826	1,826	1,826	1,826
Investments in subsidiaries and associated undertakings	295	1,763	296	898
Intangible assets	2,241	1,752	2,434	1,942
Property and equipment	7,889	7,153	8,707	7,638
Current income tax assets	-	-	1,147	1,004
Other assets	7,069	1,172	5,000	1,456
Deferred expenses and accrued income	853	708	718	564
Total assets	**988,443**	**992,448**	**969,022**	**947,909**
Liabilities				
Due to credit institutions	505,106	505,106	515,228	495,927
Due to customers	279,944	280,166	302,098	302,209
Derivative financial instruments	16	15	546	546
Transit funds	2,117	2,117	2,276	2,276
Issued debt securities	32,708	37,740	40,660	40,660
Other liabilities	56,327	55,716	13,083	12,379
Deferred income and accrued expenses	4,191	3,540	2,610	1,882
Current income tax liabilities	-	-	-	-
Deferred tax liabilities	-	-	1,006	1,006
Subordinated liabilities	31,544	31,544	31,089	31,089
Total liabilities	**911,953**	**915,944**	**908,596**	**887,974**
Shareholder's equity				
Share capital	78,031	78,031	48,513	48,513
Reserve capital	2,524	2,063	2,524	2,063
Minority interest	49	-	29	-
Revaluation deficit on available for sale investments	(3,645)	(3,645)	(3,562)	(3,562)
Retained earnings	(469)	55	12,922	12,921
Total shareholder's equity	**76,490**	**76,504**	**60,426**	**59,935**
Total liabilities and shareholder's equity	**988,443**	**992,448**	**969,022**	**947,909**
Off balance sheet items				
Contingent liabilities	11,946	11,946	24,007	24,007
Financial commitments	21,951	37,066	29,746	39,399

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 2008	**48,513**	**2,524**	**(3,562)**	**12,922**	**29**	**60,426**
Shares issued	29,518	-	-	-	-	**29,518**
Distribution of profit – payment for use of state capital	-	-	-	(967)	-	**(967)**
Net loss on available for sale investments	-	-	(83)	-	-	**(83)**
Loss for the period	-	-	-	(12,424)	20	**(12,404)**
Balance as at 30 September 2009	**78,031**	**2,524**	**(3,645)**	**(469)**	**49**	**76,490**

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 2008		**48,513**	**2,063**	**(3,562)**	**12,921**	**59,935**
Shares issued	-	29,518	-	-	-	**29,518**
Distribution of profit – payment for use of state capital		-	-	-	(967)	**(967)**
Net loss on available for sale investments		-	-	(83)	-	**(83)**
Loss for the period		-	-	-	(11,899)	**(11,899)**
Balance as at 30 September 2009		**78,031**	**2,063**	**(3,645)**	**55**	**76,504**

CASH FLOW STATEMENT
(all amounts in thousands of Lats)

	9 months to 30 September 2009		9 months to 30 September 2008	
	Group	**Bank**	**Group**	**Bank**
Cash flows from operating activities				
(Loss) / profit before taxation	(13,408)	(12,905)	2,306	2,910
Depreciation and amortization	1,537	1,392	1,772	1,525
Increase in provision for impairment losses	23,990	23,307	3,190	2,755
Profit from sale of property and equipment	32	32	(136)	(1)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**12,151**	**11,826**	**7,132**	**7,189**
Decrease / (increase) in balances due from credit institutions	27,399	27,399	(13,020)	(13,020)
Decrease / (increase) in loans to customers	30,351	4,835	(64,875)	(56,246)
Decrease / (increase) in trading securities	(3,017)	(2,995)	1,440	1,440
(Decrease) / increase in balances due to credit institutions	(115,924)	(96,949)	15,775	5,188
(Decrease) / increase in balances due to customers	(22,154)	(22,043)	(4,788)	(4,716)
(Decrease) in transit funds	(159)	(159)	(108)	(108)
(Decrease) in debt securities issued	(7,952)	(2,920)	(12,225)	(12,225)
Increase / (decrease) in deferred income and accrued expenses	2,038	2,114	349	377
(Increase) in deferred expenses and accrued income	(135)	(144)	7	83
Decrease / (increase) in other assets	(594)	1,869	(1,268)	(475)
Increase in other liabilities	42,714	42,806	(480)	(364)
Cash and cash equivalents generated from operating activities	**(35,282)**	**(34,361)**	**(72,061)**	**(72,877)**
Corporate income tax paid	**(2)**	**-**	**(674)**	**(619)**
Cash flows from investing activities				
Increase in investment securities	(47,516)	(47,560)	(19,157)	(18,986)
Purchases of property and equipment	(874)	(751)	(2,003)	(1,427)
Proceeds from property and equipment disposal	316	2	118	14
Proceeds from investments in associated entities disposal	1	-	220	22
Acquisition of investments in associated entities	-	(865)	-	-
Cash and cash equivalents used in investing activities	**(48,073)**	**(49,174)**	**(20,822)**	**(20,377)**
Cash flows from financing activities				
Proceeds received from issuance of shares	29,518	29,518	18,242	18,242
Proceeds from subordinated debt	-	-	-	-
Dividend paid	(967)	(967)	(1,659)	(1,659)
Cash and cash equivalents generated from financing activities	**28,551**	**28,551**	**16,583**	**16,583**
Increase in cash and cash equivalents	(54,806)	(54,984)	**(76,974)**	**(77,290)**
Cash and cash equivalents at the beginning of the period	57,456	57,529	131,936	131,857
Cash and cash equivalents at the end of the period	**2,650**	**2,545**	**54,962**	**54,567**

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.

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 minimized 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.
During the reporting period significant changes took place in the local and foreign financial markets therefore several risk management methods were implemented or improved in the Group and the Bank thus allowing to identify the risks more precisely and timely and to determine their impact on the future operations of the Group and the Bank. Main attention was focused on improving liquidity, credit and capital adequacy risk assessment methodology.

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.

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.

RISK MANAGEMENT (continued)

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, evaluation of the quality of the credit portfolio as well as for daily credit risk management in operations with financial instruments, whereas the Bank's Loan Department is responsible for daily credit risk management in lending operations 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 Bank accepts a pledge of real estate, as well as business assets like buildings, stock and debtors as collateral.

During the reporting period the credit risk and required provisions level increased substantially and the Bank and Group continued to develop credit risk management policies. When providing for credit loss, the Bank and Group takes into consideration the following factors: paying capacity of the borrower, credit risk diminishing elements, such as collateral. The approach applied by the Bank and the Group implies that the Bank and the Group provides for credit loss in situations where neither the paying capacity, nor the collateral cover the borrower's liability or its part, which results in objective evidence for financial asset impairment.
The Bank and the Group maintains separate database for valuation of impaired financial assets in different dimensions such as split by geographical region, product type, industry etc. By collecting such data, the Bank and the Group ensures accumulation of information on losses incurred in different periods as well as develops its credit risk analysis and management policies. Since the historical data does not reflect the current level of credit risk, the Bank and the Group adjusts the data in accordance with Bank's and Group's expert assessment and statistical analysis. The Bank and the Group carries out stress tests and scenario analysis for different macroeconomic factor changes such as real estate price decrease, reduction in population income levels, potential changes in different industries etc..
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 concentration 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 30.09.2009. was 55.1% (as of 31.12.2008.-78.6%);
- ratio of single client's (related clients' group) large exposure and own funds, which can not exceed 25%, as of 30.09.2009. was 24.0% (as of 31.12.2008.-22.1%);
- ratio of risk exposures with persons related to the Bank and own funds, which can not exceed 15%, as of 30.09.2009. was 6.8% (as of 31.12.2008.-3.8%).
- proportion of risk concentration in single economic sector in the Bank's credit portfolio and own funds as of 30.09.2009. was 104.5% (as of 31.12.200.-172.6%);

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 30.09.2009. was 10.0% (as 31.12.2008.–8.9%) 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 30.09.2009. 133.6% (as of 31.12.2008.-60.4%).

RISK MANAGEMENT (continued)

Foreign Currency Risk

The foreign currency risk occurs due to the differences between the asset and liability positions of foreign currencies that, as a result of the fluctuations of the exchange rates, 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 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 30.09.2009. were 8.5% (as of 31.12.2008.-9.8%) and 0.2% (as of 31.12.2008.-0.3%) 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 and also against operational risks.

In 2008 new European Union capital adequacy calculation regulations (Basel II) came into force. The Group and the Bank uses the standardised approach to calculate minimum capital charge for credit and market risks and basic indicator approach – for operational risk. As at 30 September 2009 the capital adequacy ratio of the Bank calculated according to the regulations of the Financial and Capital Market Commission were 11.4% (as of 31.12.2008.-9.6%) which exceeded the minimum of 8%.

The Group and the Bank has carried out also internal capital adequacy evaluation where in addition capital requirements for those significant risks with respect to which no minimum capital requirements have been determined by the regulation have been taken into account. Internal capital adequacy evaluation results as at 30 September 2009 were as follows:

	30/09/09 **Bank**
Capital base for internal capital adequacy evaluation	100,730
Internal capital requirement	79,452
Internal capital adequacy ratio	10.1%
Surplus of capital base	21,278

THE PERFORMANCE RATIOS OF THE BANK

Items	Accounting period	Previous accounting year
Return on equity (ROE) (%)	-23.26%	1.93%
Return on assets (ROA) (%)	-1.59%	0.14%

CONSOLIDATION GROUP

No	Name of commercial company	Code of place of registration, address of registration	Type of activity of commercial company *	Share of fixed capital (%)	Voting rights in commercial company (%)	Justification for including in the Group**
1.	SIA „Hipotēku bankas nekustamā īpašuma aģentūra”	LV –Latvija 40003426895	CKS	100	100	MS
2.	SIA „Hipolīzings”	LV – Latvija 40003616329	CFI	100	100	MS
3.	SIA „Risku investīciju sabiedrība”	LV – Latvija 40003952445	CFI	100	100	MS
4.	IPS „Hipo fondi”	LV – Latvija 40003403040	IPS	83	83	MS
5.	SIA „Rīgas Centra namu pārvalde”	LV – Latvija 40003266805	CKS	100	100	MS
6.	KS "Mazo un vidējo komersantu atbalsta fonds"	LV – Latvija 40003681329	CFI	47.62	47.62	KS

* IPS – investment management company, CFI – other financial institution, CKS – other commercial company.
** MS – subsidiary; KS – joint venture.

RATINGS ASSIGNED TO BANK BY RATING AGENCY MOODY`S INVESTORS SERVICE

Rating type	Ratings	Rating Approval date	Previous rating
For long-term foreign currency bank deposits	**Baa3**	25.06.2009.	**Baa3**
For short-term foreign currency deposits	**P3**	25.06.2009.	**P3**
The financial strength rating	**E+**	25.06.2009.	**D-**
The rating of mortgage bonds issued	**Baa2**	23.04.2009.	**A2**

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

These condensed financial reports are to be viewed along with the Bank’s Annual Report for 2008.

Rolands Paņko
Chairman of the Board

Uvis Zemītis
Chief Accountant