

LOAN AGREEMENT

between

THE EUROPEAN COMMUNITY

as Lender

and

THE REPUBLIC OF LATVIA

as Borrower

THE BANK OF LATVIA

as Agent to the Borrower

EUR 3 100 000 000

_____ January 2009

This Loan Agreement (the "**Agreement**") is made by and between

the European Community (hereinafter referred to as the "**EC**" or the "**Lender**"), represented by the Commission of the European Communities (hereinafter referred to as the "**Commission**"),

and

the Republic of Latvia (hereinafter referred to as "**Latvia**" or the "**Borrower**"), represented by the Minister of Finance, Mr Atis Slakteris,

and

the Bank of Latvia acting as Agent on behalf of the Borrower (hereinafter referred to as the "**Borrower's Agent**"), represented by the Governor of the Bank of Latvia, Mr Ilmārs Rimšēvičs.

Preamble

Whereas:

- (1) Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments (OJ L 53, 23.2.2002, p. 1) empowered the Commission on behalf of the EC to contract borrowings on the capital markets or with financial institutions with the aim to grant loans to one or more Member States which are experiencing, or threatened with, difficulties in their balance of current payments or capital movements;
- (2) Latvia has requested medium-term financial assistance;
- (3) The Council, by its Decision 5255/09 of 20 January 2009 (hereinafter referred to as the "**Decision**") decided to grant Latvia under Regulation (EC) No 332/2002 a loan amounting to a maximum of EUR 3 100 000 000 with a maximum average maturity of seven years. The loan shall be made available in maximum six instalments;
- (4) The loan is granted in conjunction with a loan from the International Monetary Fund of SDR 1.5 billion (around EUR 1.7 billion) under a Stand-by arrangement approved on 23 December 2008. In addition, the Nordic countries (Sweden, Denmark, Finland, Norway and Estonia) are to contribute EUR 1.9 billion together, the World Bank EUR 0.4 billion, the European Bank for Reconstruction and Development, the Czech Republic and Poland a total of EUR 0.4 billion, bringing the total assistance to EUR 7.5 billion over the period to the first quarter of 2011;
- (5) The loan is linked to economic policy measures designed to support Latvia's balance of payments sustainability as determined in Articles 2 and 3 of the Decision;

- (6) The economic policy conditions to be respected by Latvia are laid down in the Memorandum of Understanding signed on ___ January 2009 between the Commission and Latvia and the Bank of Latvia and in subsequent (Supplemental) Memoranda of Understanding, if any (hereinafter referred to collectively as "**Memorandum of Understanding**");
- (7) The first instalment shall be released subject to the entry into force of the Memorandum of Understanding and this Loan Agreement, as well as based on the Latvian authorities' economic stabilisation programme ("Economic stabilisation and growth revival programme") and amended budget for 2009, both adopted by the Latvian Parliament on 12 December 2008;
- (8) The release of instalments subsequent to the first one is conditional upon the Commission deciding favourably, after consultation with the Economic and Financial Committee, on the basis of the findings of its verification that the economic policy of Latvia accords with the adjustment or back-up programme or any other conditions laid down by the Council or in the Memorandum of Understanding;
- (9) The Commission will launch in due course, on behalf of the EC and after written agreement by the Borrower on the main terms as set out hereinafter, bond issues or any other appropriate financial transactions for the principal amount in Tranches, the proceeds of which shall be on-lent to the Borrower;
- (10) The contracts relating to the bond issue or to any other appropriate financial transaction, including a possible interest rate swap, will constitute an integral part of this Agreement as provided hereinafter;
- (11) The European Central Bank shall be acting as an agent to the Lender (hereinafter referred to as the "**Lender's Agent**");
- (12) Appropriate measures related to the prevention of, and the fight against fraud, corruption and other irregularities affecting the assistance shall be provided for by the authorities of the Borrower;
- (13) The Commission, including the Anti-Fraud Office, shall have the right to perform on-the-spot checks and inspections, and the Court of Auditors the right to carry out audits, where appropriate, on the spot.

Now, therefore, the parties hereto have agreed as follows:

Article 1 – Loan Amount

1. The Lender will make available to the Borrower a loan of a total principal amount of up to EUR 3 100 000 000 (three billion, one hundred million) in maximum six instalments (each hereinafter referred to as "**Instalment**", collectively all such Instalments hereinafter referred to as the "**Loan**"), subject to the terms and conditions defined in the Decision, in the Memorandum of Understanding and in this Agreement.

2. The principal amount of the first Instalment amounts to EUR 1 000 000 000 (one billion). The principal amount of any subsequent Instalment shall be laid down in the Memorandum of Understanding in accordance with Article 3 of the Decision.
3. An Instalment may consist of one or several tranches (hereinafter referred to as “**Tranche(s)**”).

Article 2 – Maturity

1. The Average Maturity of the Loan shall not exceed seven years. It is calculated on the basis of the Disbursement Dates of the respective Tranches using the formulae indicated in paragraph 3.
2. The Average Maturity of the Tranches of an Instalment shall be set so that the Average Maturity of the Loan shall be, at any moment, in line with paragraph 1.
3. In order to calculate the Average Maturities referred to in paragraphs 1 and 2, the following formulae will be used:

Average Maturity of a Tranche is the period of time between the Disbursement Date of the respective Tranche and the weighted average of its capital reimbursements. If R_1, R_2, \dots, R_n are the capital reimbursements at times t_1, t_2, \dots, t_n from the Disbursement Date, the Average Maturity of the Tranche equals

$$\frac{R_1 t_1 + R_2 t_2 + \dots + R_n t_n}{R_1 + R_2 + \dots + R_n}$$

Average Maturity of the Loan is the weighted average of the Average Maturity of the Tranches which constitute the Loan at any moment. If M_1, M_2, \dots, M_m is the Average Maturity of Tranches which amounted to A_1, A_2, \dots, A_m then the Average

Maturity of the Loan equals
$$\frac{M_1 A_1 + M_2 A_2 + \dots + M_m A_m}{A_1 + A_2 + \dots + A_m}$$

Article 3 – Drawdown, Net Disbursement Amount and Conditions Precedent

1. Once the Lender has decided to release an Instalment in accordance with the Decision and the Memorandum of Understanding, the Borrower may request to the Lender in writing in the form of Annex 1 an Instalment or a Tranche of it, if the Instalment consists of more than one Tranches, and shall propose and pre-accept, after consultation of the Lender, the size, maturity, maximum interest rate and whether fixed or variable, minimum net proceeds and other characteristics of it, acceptable to the Borrower (hereinafter the “**Request for Funds**”). The reference to a Tranche in this Agreement shall be understood to mean an Instalment if the latter consists of only one Tranche.
2. Within the characteristics requested by the Borrower in the Request for Funds, the Lender shall transmit to the Borrower a notice in the form of Annex 2 setting out the main financial terms of the requested Tranche (hereinafter the “**Acceptance Notice**”). Once the Lender has served an Acceptance Notice relating to the Request for Funds, there shall, from the moment such Acceptance

Notice is served, be a binding contract between the Lender and the Borrower. Nevertheless, the Lender's obligation to make a Tranche available shall be conditional upon it obtaining the corresponding funds from the international capital markets. The Lender shall launch, on behalf of the EC, a bond issue or any other appropriate financial transaction for the funding of the amount of the Tranche (the "**Financial Transaction**").

3. Once the Financial Transaction is executed, the Request for Funds, the Acceptance Notice and copies of the contracts(s) relating to each Financial Transaction (hereinafter referred to as the "**Borrowing Contracts**"), shall constitute a finance contract (hereinafter referred to as the "**Finance Contract**") between the Lender and the Borrower and form an integral part of this Agreement.
4. The net proceeds of the Tranche shall be equal to the proceeds of the Financial Transaction less the aggregate amount of the commissions and costs related to such Financial Transaction and to the preparation and execution of the Financial Transaction. In addition, costs referred to in Article 7, paragraph 6, shall also be deducted from the net proceeds, resulting to the amount to be disbursed to the Borrower (hereinafter referred to as the "**Net Disbursement Amount**").
5. The Net Disbursement Amount of the Tranche shall be transferred by the Lender's Agent on the date when received (the "**Disbursement Date**") to the euro account of the Borrower's Agent in TARGET2, TARGET2 participant's SWIFT-BIC: LACBLV2X, TARGET2 account holder SWIFT-BIC: LACBLV2X, Ref.: "EC Balance of Payments Assistance to Latvia", or to such other euro-account as the Borrower's Agent shall advise in writing to the Lender's Agent with a copy addressed to the Borrower at the latest two Working Days prior to the Disbursement Date.
6. The Lender's obligation to transfer the Net Disbursement Amount to the Borrower with respect to the first Tranche of the first Instalment shall be subject to:
 - (1) the Lender having received a legal opinion satisfactory to the Lender given by the Minister of Justice of the Borrower, in the form set out in Annex 3.

Such legal opinion shall be dated not later than the date of the Request for Funds.

The Borrower undertakes to inform the Lender immediately if, between the date of the legal opinion and the Disbursement Date, any event occurs that would render incorrect any statement made in the legal opinion;

- (2) the Lender having received from the Minister of Finance of the Borrower an official document indicating the persons authorised to sign the Requests for Funds and thus validly commit the Borrower in the Finance Contracts and containing the specimen signatures of these persons;

- (3) the Lender on the one hand and a bank or a syndicate of banks on the other hand having signed the Borrowing Contracts and the Lender's Agent having received on the Disbursement Date the net proceeds of the Financial Transaction from said bank or syndicate of banks;
 - (4) no material adverse change having occurred such as would, in the opinion of the Lender, after consultation with the Borrower, be likely to prejudice materially the ability of the Borrower to fulfil its payment obligations under this Agreement, i.e. to service the Tranche to be funded and to repay the Tranche.
7. The Lender's obligation to transfer the Net Disbursement Amount of any subsequent Tranche to the Borrower shall be subject to:
 - (1) the Borrower undertaking to inform the Lender immediately if any event occurs that would render incorrect any statement made in the legal opinion received by the Lender under paragraph 6(1) of this Article;
 - (2) the Lender on the one hand and a bank or a syndicate of banks on the other hand having signed the Borrowing Contracts and the Lender's Agent having received on the Disbursement Date the net proceeds of the Financial Transaction from said bank or syndicate of banks;
 - (3) no material adverse change having occurred such as would, in the opinion of the Lender, after consultation with the Borrower, be likely to prejudice materially the ability of the Borrower to fulfil its payment obligations under this Agreement, i.e. to service the Tranche to be funded and to repay the Tranche.
8. The disbursement of a Tranche shall under no circumstances commit any of the parties to proceed with the lending and borrowing of any further Tranche. The Borrower shall request any further Tranche from the Lender in accordance with this Article. The Lender will then launch the procedure set out in this Article.
9. The Borrower's right to request any Tranche under this Agreement expires on 20 January 2012.

Article 4 – Undertakings

1. Each Tranche of the Loan shall constitute an unsecured, direct, unconditional and general obligation of the Borrower and will rank at least pari passu with all other present and future unsecured loans and obligations of the Borrower arising from its present or future external indebtedness as defined in Article 8, paragraph 1(f).
2. The Borrower undertakes, until such time as all principal under this Loan Agreement has been fully reimbursed and all interest and additional amounts, if any, under this Loan Agreement have been fully paid, with the exception of those encumbrances enumerated under paragraph 4 of this Article, not to secure by

mortgage, pledge or any other encumbrance upon its own assets or revenues any present or future external indebtedness and any guarantee or indemnity given in respect thereof, unless the Loan at the same time shares pari passu and pro rata in such security.

3. The Borrower undertakes not to ask for the rescheduling of the Loan or any debt relief with respect to the Loan and recognises that the Lender shall have the identical legal capacity, immunities and privileges as accorded to international financial institutions. The Borrower further undertakes that, except for the encumbrances provided under paragraph 4 of this Article, no priority over the Lender will be given to any other creditor.
4. The Borrower respecting its undertaking under paragraph 2 may allow exclusively for the following encumbrances:
 - (1) Encumbrances upon any property incurred to secure the purchase price of such property and any renewal or extension of such encumbrance which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing; and
 - (2) Encumbrances on commercial goods arising in the course of ordinary commercial banking transactions (and expiring at the latest within one year thereafter) to finance the import or export of such goods into or from the country of the Borrower; and
 - (3) Encumbrances securing or providing for the payment of external indebtedness incurred exclusively in order to provide financing for a well defined investment project, provided that the properties to which any such encumbrances apply are properties which are the subject of such project financing, or which are revenues or claims which arise from the project; and
 - (4) Any other encumbrances in existence on the date of the signing of this Agreement, provided that such encumbrances remain confined to the properties presently affected thereby and properties which become affected by such encumbrances under contracts in effect on the date of the signing of this Agreement and provided further that such encumbrances secure or provide for the payment of only those obligations so secured or provided for on the date hereof or any refinancing of such obligations; and
 - (5) All other statutory encumbrances and privileges which operate solely by virtue of law and which cannot be reasonably avoided by the Borrower.

As used in this Article, "financing of a project" means any financing of the acquisition, construction or development of any properties in connection with a project if the providing entity for such financing expressly agrees to look to the properties financed and the revenues to be generated by the operation of, or loss or damage to, such properties as the principal source of repayment for the moneys advanced.

5. The Borrower undertakes to utilise the Net Disbursement Amount from the Loan in accordance with the Decision and the Memorandum of Understanding.

Article 5 – Interest

1. The interest rate on each Tranche and the due dates for payment of interest will be the same as those determined in the corresponding Borrowing Contracts.
2. If the Lender due to prevailing market conditions at the time of launching a bond issue or any other Financial Transaction is not able to obtain a funding at or below the maximum rates referred to in the relevant Acceptance Notice, then the Lender is under no obligation to make the Net Disbursement Amount of any Tranche available to the Borrower. However, upon request from the Borrower, the Lender may propose to the Borrower new maximum interest rates in the light of the then prevailing market conditions.
3. Upon request from the Borrower and if in the Lender's judgement circumstances permit an improvement in the interest rate of a Tranche, the Lender may restructure the financial conditions of the Lender's borrowings with respect to the Tranche, provided that the relevant Borrowing Contracts allow such a restructuring or that the Lender can renegotiate the Borrowing Contracts to such effect.
4. If the Borrower fails to pay principal or interest payable under this Agreement on the due date, the Borrower shall pay additional interest on such sum (or, as the case may be, the amount thereof for the time being due and unpaid) to the Lender from the due date to the date of actual payment in full, calculated by reference to successive interest periods (each of such length as the Lender may from time to time select, the first period beginning on the relevant due date and, wherever possible, the length of such period shall be that of one week) at the higher of
 - a) the rate per annum being the aggregate of:
 - (i) two per cent (2%) per annum, and
 - (ii) the EURIBOR rate for the relevant duration,or
 - b) two per cent (2%) per annum plus the interest rate of the respective Tranche as determined in paragraph 1 of this Article.

So long as the failure to pay continues, such rate shall be refixed in accordance with the provisions of this paragraph on the last day of each such interest period and unpaid interest under this paragraph concerning previous interest periods shall be added to the amount of interest due at the end of each such interest period.

If the Borrower fails to pay any other costs or expenses to be paid to the Lender at the date when these become due and payable in accordance with this Agreement, then the Borrower shall pay in addition all costs and expenses, including legal

fees, incurred by the Lender, due to such late payment and as determined by the Lender.

In addition, the Borrower undertakes to pay to the Lender all additional interest and all costs and expenses, including legal fees, incurred and payable by the Lender as a result of a breach of any obligation under this Agreement by the Borrower.

The Lender's Agent shall inform the Borrower on the details of the interest calculation and in particular of the reference used for the EURIBOR setting, if applicable.

Article 6 – Repayment and Option for Prepayment

1. The Borrower shall repay the principal amount of each Tranche at the dates and under the conditions determined in the Borrowing Contracts and as notified to it by the Lender's Agent.
2. The Lender will not include an early repayment clause in the terms and conditions of the Financial Transaction, unless the Borrower has explicitly requested such a clause in the Request for Funds. The terms and conditions of such an early repayment option for the Borrower shall be those of the corresponding early repayment option for the Lender under the Borrowing Contracts. If the Borrower wants to exercise its option, it shall give notice to the Lender of its decision to early repay the respective Tranche at least one month prior to the latest notice date for early repayment under the Borrowing Contracts.

Article 7 – Payments

1. All payments to be made by the Borrower shall be paid free of any taxes, commissions and any other deductions for the entire term of this Agreement.
2. The Borrower declares that all payments and transfers under this Agreement, as well as the Agreement itself, are not subject to any tax or any other impost in the country of the Borrower and shall not be so subject for the entire term of this Agreement. If nevertheless the Borrower is required by law to make any such deductions, the Borrower shall pay the requisite additional amounts so that the Lender receives in full the amounts specified by this Agreement.
3. All payments by the Borrower shall be made in Euro to the euro-account of the Lender's Agent in TARGET2, TARGET2 participant SWIFT-BIC: ECBFDEFFBAC, TARGET2 account holder SWIFT-BIC ECBFDEFFBAC, ref.: "EC balance of payments assistance to Latvia", or to such other account as the Lender's Agent will instruct the Borrower and the Borrower's Agent by written notice at least six Working Days before the relevant due date.
4. The Lender's Agent shall advise the Borrower and its Agent at least 15 calendar days prior to the due date of the amount of principal and of interest due and

payable on such date and of the details (interest rate, interest period) on which the interest calculation is based. All amounts due shall be credited on the account of the Lender's Agent referred to in paragraph 3 at 11:00 hours CET on the relevant due date at the latest.

5. The Borrower shall send to the Lender's Agent a copy of its payment instructions sent to the Borrower's Agent at least two Working Days prior to the relevant due date.
6. The Borrower undertakes to pay all costs and expenses incurred and payable by the Lender in relation to the preparation and implementation of each Tranche and the corresponding Financial Transactions, the Borrowing Contracts and any other costs and expenses incurred and payable by the Lender in relation to such Financial Transactions and any related costs and expenses during the life of the Financial Transaction. These costs and expenses to be borne by the Borrower may include, *inter alia*, legal costs (such as the costs incurred for legal opinions), costs for borrowing documentation, rating costs, travelling costs, if applicable, and commissions related to the financial service of the Financial Transactions, taxes, registration fees and publication costs, if any. The above mentioned amounts, unless deducted from the proceeds in accordance with Article 3, paragraph 4, shall be paid by the Borrower within one month after notification by the Lender, such notification to be accompanied by supporting documents.
7.
 - a) If the Borrower shall pay an amount in relation to any of the Tranches which is less than the total amount due and payable under this Agreement, the Borrower hereby waives any rights it may have to make any appropriation of the amount so paid as to the amounts due.
 - b) The amount so paid under a Tranche shall be applied in or towards satisfaction of payments due under such a Tranche in the sequence first of any fees and expenses, second of any interest for late payments as determined under Article 5, paragraph 4, third against interest, fourth against principal, provided that these amounts are due or overdue for payment on that date.

Article 8 – Events of Default and Early Repayment

1. The Lender by written notice to the Borrower may declare the outstanding principal amount of the Loan to be immediately due and payable, together with accrued interest, if
 - a) the Borrower shall fail to pay at the stated maturity any payment of principal or interest, whether in whole or in part, in the manner and currency as agreed in this Agreement, in respect of any Tranche and such default in payment shall not be remedied by payment thereof within five Working Days after written notice thereof shall have been given to the Borrower by the Lender; or
 - b) the Borrower shall default in the performance of any obligation under this Agreement other than obligations contained in the Memorandum of

Understanding, but including the obligation set out in Article 4, paragraph 5, and such default shall continue for a period of one month after written notice thereof shall have been given to the Borrower by the Lender; or

- c) for any reason whatsoever due to an act or an omission by any institution or individual or other body having the legal power inside the country of the Borrower, the Borrower's obligations under this Agreement are contested to be binding on or enforceable against the Borrower; or
- d) it has been established that in relation with this Loan, the Borrower or the Borrower's Agent has engaged in any act of fraud or corruption or any other illegal activity detrimental to the EC's financial interests; or
- e) there is under any previous loan agreement between the Borrower, the Borrower's Agent and the European Community, regardless of the amount, or under any other external indebtedness of the Borrower having an aggregate principal amount in excess of EUR 50 million a declaration of default as defined in any instrument governing or evidencing such indebtedness and as a result of such a declaration of default there is an acceleration of such indebtedness; or
- f) the Borrower does not generally pay its external indebtedness as it falls due or declares or imposes a moratorium on the payment of the external indebtedness of the Borrower or of an external indebtedness assumed or guaranteed by it.

For the purposes of the foregoing, "external indebtedness" of the Borrower means any debt contracted, guaranteed or otherwise secured by the Borrower or the Borrower's Agent, which is either

(i) denominated in a currency other than the currency of the Borrower; or

(ii) raised or incurred (in whatever currency) outside of the country of the Borrower.

- 2. In the event of an early termination of an interest rate swap, if any, the Borrower, instead of servicing the payment obligations under the swap, shall assure the debt service of the underlying bond issue or other Financial Transaction.
- 3. The Lender may, but is not obliged to, exercise its rights under this Article and may also exercise them only in part without prejudice to the future exercise of such rights.
- 4. The Borrower shall reimburse all costs, expenses, fees and loss of interest incurred and payable by the Lender as a consequence of an early repayment of any Tranches under this Article. The loss of interest is the difference between the interest rate of the Tranche and the interest received by the EC from the reinvestment of the amounts early repaid, for the period between the date of the early repayment and the date on which the Financial Transaction matures or can be terminated according to the terms of the Borrowing Contracts.

Article 9 – Undertakings relating to inspections, fraud prevention and audits

1. The Commission, including the European Anti-Fraud Office, and the European Court of Auditors shall have the right to send their own agents or duly authorised representatives to carry out any technical or financial controls or audits that they consider necessary in relation to the management of this assistance as long as the Loan has not been fully repaid.
2. The Borrower and the Borrower's Agent shall supply relevant information and documents which may be requested for the purpose of such assessments, controls or audits, and take all suitable measures to facilitate the work of persons instructed to carry them out. The Borrower and the Borrower's Agent undertake to give to the persons referred to in paragraph 1 access to sites and premises where the relevant information and documents are kept.
3. The Borrower and the Borrower's Agent shall ensure investigation and satisfactory treatment of any suspected and actual cases of fraud, corruption or any other illegal activity in relation to the management of the EC balance of payments assistance, detrimental to the EC's financial interests. All such cases as well as measures related thereto taken by national competent authorities shall be reported to the Commission without delay.

Article 10 – Notices

All notices in relation to this Agreement shall be validly given if in writing and sent to:

For the Lender:

Commission of the European Communities
Directorate General Economic and Financial Affairs –
Unit L-3 "Lending and IFI Programme Management"
L-2920 Luxembourg
Attention: Mr Javier Garcia Lon, Head of Unit
Tel.: (+352) 4301 36372
Fax: (+352) 4301 36599
SWIFT address: EUCOLULL

With copy to the Lender's Agent:

European Central Bank
Kaiserstrasse 29
D-60311 Frankfurt am Main
Attention: Mr H. Metselaar, Head of Back Office Division
Tel.: + 49 69 1344 7333
Fax: + 49 69 1344 6171
SWIFT BIC: ECBFDEFFBAC

For the Borrower:
Ministry of Finance of Latvia
Smilšu ielā 1,
LV-1919 Rīgā
Attention: Mr Kaspars Ābolinš, Treasurer of the Republic of Latvia
Tel.: + 371 67094222
Fax: + 371 67094220
SWIFT BIC: TRELLV22

With copy to the Borrower's Agent:
Bank of Latvia
K.Valdemāra ielā 2A,
LV-1050 Rīgā
Attention: Mr Raivo Vanags, Mr Janis Caune
Tel.: + 371 67022 300
Fax: + 371 67022 420
SWIFT address: BIC LACBLV2X

All notices shall be given by registered mail. In case of urgency, they can be given by fax, Swift or by hand-delivered letter to the above addressees and confirmed by registered mail without undue delay. Notices become effective with the actual receipt of the fax, the Swift-message or the letter.

All documents, information and materials to be furnished under this Agreement shall be in the English language or in the language of the Borrower's country, accompanied by a certified English translation, provided that, in the latter case, the English translation shall prevail in the case of divergence.

Article 11 – Miscellaneous

1. If any one or more of the provisions contained in this Agreement should be or become fully or in part invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby. Provisions which are fully or in part invalid, illegal or unenforceable shall be implemented according to the spirit and purpose of this Agreement.
2. The Preamble and the Annexes to this Agreement, the Decision, the Memorandum of Understanding and the Finance Contracts entered into after the signature of this Agreement with respect to this Agreement and the Borrowing Contracts, including, as the case may be, any one or more "Distribution Agreements" or "Subscription Agreements", "Agency Agreements" or "Fiscal Agency Agreements", "Offering Circulars" and "Swap Agreements" do and shall hereafter form an integral part of this Agreement.
3. The purpose of this Agreement is to set up the conditions under which the EC makes available to the Borrower the proceeds of the corresponding Financial Transactions arranged by the EC to this effect. As a consequence, the Borrower and the EC accept that their rights and obligations, unless otherwise stated in this

Agreement, are defined and interpreted by reference to the corresponding borrowing documentation. In particular the terms of the Borrowing Contracts, copies of which shall be transmitted to the Borrower, shall be applicable to the Agreement. However, if there is any conflict between the terms of this Agreement and any Borrowing Contract, the terms of this Agreement shall prevail.

4. A "**Working Day**" shall mean a day on which the TARGET2 payment system is open for business.

Article 12 – Governing law and jurisdiction

1. This Agreement is governed by and shall be construed in accordance with English law.
2. The parties undertake to submit, pursuant to Article 238 of the Treaty establishing the European Community (hereinafter referred to as the "EC Treaty"), any dispute which may arise relating to the legality, validity, interpretation or performance of this Agreement to the exclusive jurisdiction of and arbitration by the Court of First Instance of the European Communities (the "CFI"), with the right of appeal to the Court of Justice of the European Communities (the "ECJ") provided for in Article 225 of the EC Treaty.

Judgements of the ECJ and of the CFI, as the case may be, shall be fully binding on and enforceable by the parties, save where, pending an appeal from the CFI, the ECJ, by way of interim relief, suspends the operation of a judgement, or any part of a judgement, of the CFI, and in the case of the European Community, without prejudice to the application of the Protocol on the Privileges and Immunities of the European Communities.

3. The Lender may enforce any judgement obtained of the ECJ or CFI, as provided herein or other rights against the Borrower in the courts of the country of the Borrower.

Article 13 – Entry into force

1. Following its signature by all parties, this Agreement shall enter into force on the date on which the Lender has received the official notification in the form of the Legal Opinion (Annex 3 to this Agreement) by the Borrower that all constitutional and legal requirements for the entry into force of this Agreement and the valid and irrevocable commitment of the Borrower to all obligations under this Agreement have been fulfilled.
2. The entry into force shall not be later than 6 months after signature of the Agreement. If the Agreement has not entered into force by that date, the parties to the Agreement shall no longer be bound by it.

Article 14 – Execution of the Agreement

This Agreement shall be executed by each party in four originals in the English language, each of which shall constitute an original instrument.

Article 15 – Annexes

The Annexes to this Agreement shall constitute an integral part thereof:

1. Form of Request for Funds
2. Form of Acceptance Notice
3. Form of Legal Opinion

Done in Luxembourg on ____ January 2009 and in Riga on ____ January 2009.

REPUBLIC OF LATVIA

as Borrower

Represented by

Atis Slakteris
Minister of Finance

EUROPEAN COMMUNITY
represented by
COMMISSION OF THE
EUROPEAN COMMUNITIES
as Lender

Represented by

BANK OF LATVIA
as the Borrower's Agent

Represented by

Ilmārs Rimšēvičs
Governor of the Bank of Latvia

Letter head of Latvian authorities

By fax followed by registered mail:

**European Commission
Directorate General Economic and Financial Affairs
Unit L3 "Lending and IFI Programme Management"
L-2920 Luxembourg
Fax: +352 4301 36599**

Copy to the European Central Bank
[Insert address]
Fax: [•]

Copy to the Bank of Latvia
[Insert address]
Fax: [•]

**Subject: European Community balance of payments assistance
Request for Funds for [Tranche number [•] of] the [•] Instalment**

Dear Sirs,

We refer to the Loan Agreement made between the European Community as Lender and the Republic of Latvia as Borrower of a maximum amount of EUR 3 100 000 000 signed on [•] January 2009 ("the Loan Agreement") and entered into force following the submission to the Lender of the Legal Opinion of the Borrower dated [•] January 2009. Terms defined in the Loan Agreement shall have the same meaning herein.

1. We hereby irrevocably request that a Finance Contract be concluded for [the [•] Tranche of] the [•] Instalment under and in accordance with the Loan Agreement upon the following terms:
 - a) Nominal amount of the Tranche[/Instalment] to be EUR [•].
 - b) The minimum Net Disbursement Amount of the Tranche[/Instalment] to be EUR [•].
 - c) The capital reimbursement of the Tranche[/Instalment] to be:

Date (years)	Capital reimbursement (€)
0	Disbursement

- d) Consequently, the Average Maturity of this Tranche[/Instalment] is fixed at [•] years, and the Average Maturity of the Loan is of [•] years, in accordance with Article 2 of the Loan Agreement.
2. As an interest rate we request a [fixed interest rate / variable interest rate].
 3. [Fixed nominal interest rate shall not be higher than [•] % per annum.] / [Variable nominal interest rate shall not be higher than the [•] months EURIBOR plus [•] % per annum.]

Interest payments shall take place every [•] months after the Disbursement Date, with the last one at the same date as the last capital reimbursement. In case of variable interest rate, the frequency of payments shall match the term of the chosen EURIBOR.

4. Day count basis shall be determined in the Borrowing Contract.
5. [We hereby irrevocably authorise the Lender to consider the option of using interest rate swaps in order to obtain the economically most favourable financial terms for this Tranche[/Instalment], should market circumstances so require.]
6. We acknowledge and agree that the disbursement of the funds shall be in accordance with and subject to
 - a) The issue by the Lender of an Acceptance Notice; and
 - b) The Lender being satisfied at all times that the corresponding funds are available to it from a counterparty in the international capital markets on terms and conditions that are acceptable to it and that are consistent with the terms set out in this Request for Funds and in the Acceptance Notice.
7. We further acknowledge and agree that
 - a) Upon service by the Lender of the Acceptance Notice in respect of this Request for Funds, a Finance Contract under the Loan Agreement shall automatically be concluded between ourselves and the Lender in respect of the Tranche[/Instalment] requested. In due course thereafter, we will receive a copy of the relevant Borrowing Contract(s) containing the detailed terms and conditions of the Finance Contract.
 - b) If we, the Borrower, have not explicitly requested in this Request for Funds an early prepayment option, this choice is definite for this Tranche[/Instalment].
 - c) The list of authorised signatures validly committing the Borrower in the Finance Contracts sent by the Minister of Finance on [•] remains valid and applicable.

- d) No event has occurred that would render incorrect any statement made in the legal opinion sent to the Lender on [•].

Yours faithfully,



EUROPEAN COMMISSION

DIRECTORATE GENERAL

ECONOMIC AND FINANCIAL AFFAIRS

Financial operations, programme management and liaison with the EIB Group

By fax followed by registered mail:

[Insert Borrower's contact details]

Copy to the European Central Bank

[Insert address]

Fax: [•]

Copy to the Bank of Latvia

[Insert address]

Fax: [•]

[Copy to [•]]

[Insert address]

Fax: [•]]

**Subject: European Community balance of payments assistance
Acceptance Notice of financial terms for [the [•] Tranche of] the
[•] Instalment of EUR [•]**

Dear Sirs,

We refer to the Loan Agreement between the European Community as Lender and the Republic of Latvia as Borrower of a maximum amount of EUR 3 100 000 000 signed on [•] January 2009 ("the Loan Agreement"). Terms defined in the Loan Agreement shall have the same meaning herein.

We hereby acknowledge that we have received your Request for Funds for [the [•] Tranche of] the [•] Instalment on [•].

The European Community intends to launch a Financial Transaction in order to fund the above mentioned Tranche[/Instalment] of EUR [•], in accordance with the terms that you have agreed upon in the Request for Funds and with the following ones:

Nominal amount EUR [•]
Disbursement Date: Planned for [week]
Minimum Net Disbursement Amount EUR [•] as defined in your Request for Funds

This Notice is subject to the EC being able to conclude the Financial Transaction at the above indicated terms. If the EC cannot obtain these terms, then it is under no obligation to deliver the funds. In this case, according to Article 5, paragraph 2, of the Loan Agreement, the Borrower may request the Lender to propose new maximum interest rates.

We assure you that in any case the EC in its negotiations with the banks will use its best endeavours to achieve the cheapest cost of funding.

Yours faithfully,

**EUROPEAN COMMUNITY
EUROPEAN COMMISSION**

[•]

[•]

Annex 3

MINISTRY OF JUSTICE
(to be issued on official letterhead of the Ministry)

[Riga, *date*]

Commission of the European Communities
Directorate General Economic and Financial Affairs
Directorate L - Financial operations, programme management and liaison with the
EIB Group
Unit L3 - Lending and IFI Programme Management
L-2920 Luxembourg

Re: Loan Agreement between the European Community (as Lender) and the Republic of Latvia (as Borrower) and the Bank of Latvia (as Agent to the Borrower) for a maximum amount of EUR 3 100 000 000

Dear Sirs,

In my capacity as Minister of Justice of the Republic of Latvia, I refer to the above referenced Loan Agreement and its Annexes which constitute an integral part thereof (hereinafter together referred to as the "Loan Agreement") entered into between the Republic of Latvia (hereinafter referred to as the "Borrower") and the European Community (hereinafter referred to as the "Lender") on [•] January 2009.

I warrant that I am fully competent to issue this legal opinion in connection with the Loan Agreement on behalf of the Borrower.

I have examined originals of the Loan Agreement. I have also examined the relevant provisions of national and international law applicable to the Borrower and its Agent, the powers of signatories and such other documents as I have deemed necessary or appropriate. Furthermore, I have made such other investigations and reviewed such matters of law as I have considered relevant to the opinion expressed herein.

Terms used and not defined in this opinion shall have the meaning set out in the Loan Agreement.

Subject to the foregoing, I am of the opinion that:

1. With respect to the laws, regulations and legally binding decisions currently in force in the Republic of Latvia, the Borrower is by the execution of the Loan Agreement by Atis Slakteris, Minister of Finance, validly and irrevocably

committed to fulfil all of its obligations under it. In particular, the provisions of the Loan Agreement relating to the establishment of Finance Contracts in relation to the drawdowns are fully valid under Latvian law.

2. In particular, the Borrower's execution, delivery and performance of the Loan Agreement: (i) have been duly authorised by all necessary consents, actions, approval and authorisations; and (ii) has not and will not violate any applicable regulation or ruling of any competent authority.
3. Consequently, nothing therein contravenes or limits the rights of the Borrower to make punctual and effective payment by the same of any sum due for the principal, interest or other charges under the Loan Agreement.
4. The Loan Agreement is in proper legal form under Latvian laws for enforcement against the Borrower and the Agent. The enforcement of the Loan Agreement would not be contrary to mandatory provisions of Latvian law, to the Latvian ordre public, to international treaties or to generally accepted principles of international law binding on the Borrower.
5. It is not necessary in order to ensure the legality, validity or enforceability of the Loan Agreement that it be filed, recorded, or enrolled with any court or authority in the Republic of Latvia.
6. No taxes, duties, fees or other charges imposed by the Republic of Latvia or any taxing authority thereof or therein are payable in connection with the execution and delivery of the Loan Agreement and with any payment or transfer of principal, interest, commissions and other sums due under the Loan Agreement.
7. No exchange control authorisations are required and no fees or other commission are to be paid on the transfer of any sum due under the Loan Agreement.
8. The co-signature of the Loan Agreement by Ilmārs Rimšēvičs, Governor of the Bank of Latvia, legally and validly binds the Agent.
9. The choice of English law as governing law for the Loan Agreement is a valid choice of law binding the Borrower in accordance with Latvian law.
10. The Borrower has legally, effectively and irrevocably submitted to the exclusive jurisdiction of the Court of Justice of the European Communities and the Court of First Instance of the European Communities in connection with the Loan Agreement and any judgement of such courts would be conclusive and enforceable in Latvia.
11. Neither the Borrower nor any of its property are immune on the grounds of sovereignty or otherwise from jurisdiction, attachment – whether before or after judgement – or execution in respect of any action or proceeding relating to the Loan Agreement.

12. The execution of the Loan Agreement has been made upon the provisions of [*insert appropriate reference to Latvian law*].
13. No provision exists in Latvia, which would make it necessary to ratify the execution, delivery, and implementation of the Loan Agreement and its Annexes.
14. The loan amount, as indicated in Article 1 of the Loan Agreement, will be received in instalments by the Borrower in accordance with the Memorandum of Understanding and under the terms and conditions fixed in the Loan Agreement and in the Finance Contracts.
15. In conclusion, the Loan Agreement has been duly executed and all the Borrower's obligations in relation to the Loan Agreement are valid, binding and enforceable in accordance with their terms and nothing further is required to give effect to the same.