

**STATE-OWNED JSC "LATVIJAS HIPOTĒKU UN ZEMES BANKA"  
("MORTGAGE AND LAND BANK OF LATVIA")**

**PUBLIC QUARTERLY REPORT**

(prepared in accordance with the "Regulations for the Preparation of the Public Quarterly Reports of the Credit Institutions" issued by the Financial and Capital Market Commission)

**Balance Sheet**

**June 30 2003**

(the last date of the accounting period)

*(thousands of LVL)*

Items	Accounting Period	Previous Accounting Year
Cash and balances with Central Bank	6 009	7 703
Due from credit institutions	8 472	19 397
Loans to customers	162 640	132 605
Fixed income securities	9 644	3 422
Equity securities available for sale	17	20
Derivatives	-	-
Investments in subsidiaries and associated entities	402	102
Intangible assets	861	732
Fixed assets	6 711	6 262
Other assets	2 141	1 934
<b>Total assets</b>	<b>196 897</b>	<b>172 177</b>
Due to credit institutions	31 665	21 557
Customer deposits	112 942	102 180
Debt securities issued	20 449	17 439
Derivatives	-	-
Other liabilities	5 252	4 888
Subordinated capital	3 300	3 300
Shareholders' equity	23 289	22 813
<b>Total liabilities</b>	<b>196 897</b>	<b>172 177</b>
Contingent liabilities	1 398	1 220
Due to customers	7 495	4 789
Assets under management	-	-

## Profit and Loss Statement

**30 June 2003**

(the last date of the accounting period)

*(thousands of LVL)*

Item	Accounting Period	Corresponding Period of the Previous Year
Interest income	7 356	6 015
Interest expense	(3 342)	(2 709)
Result from dealing with securities and foreign exchange	-	-
Fees and commission income	1 263	952
Fees and commission expense	(94)	(144)
Profit/loss from trade in financial instruments	345	248
Other operating income	817	838
Administrative expenses	(4 257)	(3 327)
Depreciation and amortisation	(593)	(509)
Other operating expenses	-	-
Provision for doubtful debts	(1 204)	(611)
Income from release from provisions	661	134
Profit/loss from revaluation of long-term financial investments	-	-
Profit/loss from investments in subsidiaries and associated entities	-	-
Operating profit/loss	952	887
Extraordinary income	-	-
Extraordinary expenses	-	-
Profit/loss before taxation	952	887
Income tax	(148)	(243)
<b>Net profit/loss for the accounting period</b>	<b>804</b>	<b>644</b>

## Performance Results of Bank

**30 June 2003**

(the last date of the accounting period)

Item	Accounting Period	Previous Accounting Year
Return on equity (ROE) (%)	6.99%	6.11%
Return on assets (ROA) (%)	0.87%	0.89%

## Consolidation Group

30 June 2003

(the last date of the accounting period)

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" 000342689	LV - Latvia	CKS	100	100	MS
2.	SIA "Hipotēku bankas finansu konsultāciju centrs" 000357951	LV - Latvia	CKS	100	100	MS
3.	SIA "Hipolīzings" 000361632	LV - Latvia	CFI	100	100	MS

\* BNK – bank, APS – insurance company, ISA – investment company, PFO – pension fund, CFI – other financial institution, FPS – finance management company, CKS – other commercial company.

\*\* MS – subsidiary; KS – joint venture; MAS – parent company.

### **Ratings Assigned to Bank by Rating Agencies**

Rating Agency: Moody's Investors Service Ltd.

Types of rating assigned to Mortgage Bank:

- the financial strength rating;
- the rating of long-term foreign currency bank deposits;
- the rating of short-term foreign currency bank deposits;
- the rating of domestic currency mortgage bonds issued by Mortgage Bank.

Credit ratings are, in fact, the evaluation of the company's solvency. It is an indicator that can give an insight into the company and its development prospects, as well as the possibilities of profit. Credit ratings are assigned by special agencies that assess the financial position and the potential of the company. The agencies take the account of the historic and expected financial situation of the company, the quality of management, the economic activities, as well as any other specific information that may leave an impact on the fulfilment of liabilities and the general economic and political environment in the country. Obtaining a rating means that the company has reached a certain level of quality in its development and wishes to work in compliance with the best practice of the world.

In order to make the financial situation of the company more obvious and easier to understand, the credit ratings are divided into different mutually comparable groups indicating the degree of risk. Ratings are constantly monitored and adjusted if any positive or negative information appears.

1<sup>st</sup> group (AAA, AA) – this group includes companies of higher class that offer their investors nearly risk free investment.

2<sup>nd</sup> group (A, BBB) – this group includes companies with a good or average market position and the loans of these companies are regarded as a safe investment in the conditions of a stable market.

There also exist two groups with higher risk – the 3<sup>rd</sup> and the 4<sup>th</sup> group.

Mortgage Bank is currently placed in the 2<sup>nd</sup> group.

The rating is important to Mortgage Bank both when borrowing financial resources from co-operating banks and international financial institutions for implementing target programmes of national importance, and because the Bank is the issuer of debt securities traded on the stock exchange – mortgage bonds.

Ratings assigned to Mortgage Bank and changes thereto:

- the financial strength rating (**D -**);
- the rating of long-term foreign currency bank deposits (**A2**);
- the rating of short-term foreign currency bank deposits (**P-1**);
- the rating of domestic currency mortgage bonds issued by Mortgage Bank (**A1**).

These ratings have been assigned in December 2002. Compared to the year 2001, all ratings, except the financial strength rating, are notched up. The upgrading of the Bank's ratings is related to the upsurge of the rating of the State of Latvia, as well as the successful development of Mortgage Bank. The upward revision of the rating of mortgage bonds can be regarded not only as the positive evaluation of the operation of the Bank as the issuer of mortgage bonds, but also as that of the 2002 amendments to the Law on Mortgage Bonds.

Ratings assigned to Mortgage Bank (October 2001):

- the financial strength rating (D -);
- the rating of long-term foreign currency bank deposits (Baa3);
- the rating of short-term foreign currency bank deposits (P-3);
- the rating of domestic currency mortgage bonds issued by Mortgage Bank (A3);

The next changes to the ratings could be made in autumn 2003.

Inesis Feiferis  
Chairman of the Board

Aija Laicāne  
Chief Accountant