

**MORTGAGE AND LAND BANK  
OF LATVIA**

**Interim Condensed Consolidated and  
Bank Financial Statements for the nine  
months period ended 30 September 2005**

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Bank Financial Statements*  
*for the nine months period ended 30 September 2005*

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**CONTENTS**

	<b>Page</b>
Management Report	1 - 3
Supervisory Council and the Board of Directors	4
Statement of Responsibility of the Supervisory Council and the Board of Directors	5
Auditor's Report	6
Financial Statements:	
Income Statement	7
Balance Sheet	8
Statement of Changes in Shareholder's Equity	9
Cash Flow Statement	10
Notes to the Financial Statements	11 - 18

## MANAGEMENT REPORT

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### The nine months of 2005

In 2005 the rapid economic development continued in Latvia. The reforms implemented in the country and integration into the European Union influenced the economic development positively. The stable increase in the domestic demand (private consumption and investments) and export sustain the high growth pace. Also the international rating agencies have appraised the economic development of Latvia as favourable. In 2005 the rating agencies Fitch Ratings and Standard & Poor's extended the ratings already granted to Latvia with a stable outlook for the future.

During the first 6 months of 2005 GDP of Latvia has increased by 9.5% in comparison with the same period last year (in 2004 GDP growth was 8.5%). In the first half of the year GDP growth was fostered by increase in the trading volumes by 17.1%, transport and communications by 15.2%, processing industry by 3.7% and construction by 16%. Both in 2004 and in the first 6 months of 2005 the economy of Latvia has been the fastest growing economy in the European Union. The Bank of Latvia and Ministry of Finance of the Republic of Latvia forecast that the national economy of Latvia would increase by 7.5% this year.

In 2005 a high consumer price increase was registered in Latvia. In comparison with September 2004, the consumer prices had increased by 7.2% as at September 2005 (in 2004 the consumer price inflation was 7.3%). This year mainly the increase of prices for fuel and foodstuffs contributed to the price rise. For more than a year the annual inflation index registered in Latvia has been the largest among the consumer price rise indicators of the EU member states. The Bank of Latvia forecasts 6% inflation in 2005.

In 9 months of 2005 the unemployment rate shrank by 0.8 percentage points in Latvia; nevertheless it still remains high – 7.7% of the economically active population.

The external trade volumes of Latvia continued to grow in 2005. In the first 8 months of this year, comparing with the respective period last year, the export has grown by 34%, but import by 25%; predominance of import over export was 62%. The EU member states are the main trade partners of Latvia. Their share in the total turnover of the external trade of the state exceeded 70%.

In compliance with a Maastricht criterion (3% of GDP) the budgetary deficit of this year is planned in the amount of 1.68% of GDP.

The banking system of Latvia continues to develop dynamically. In 2005 the number of the banks has not changed. There are 22 banks and one subsidiary of foreign bank operating in Latvia. During 9 months of this year the assets of the banks have increased by 25%, amounting to 9,8 billion lats as at the end of September, the deposits have increased by 14%, the granted loans increased by 40%, but the capital and reserves of the banks – by 20%. In the first 9 months of 2005 the unaudited profit of the banks reached a record-high figure - 144 mln lats that was by 61.5 mln lats or 75% more than the profit recorded in the respective period of 2004.

This year the commercial banks of Latvia continue to promote the mortgage loans by offering special terms and reduced loan interest rates. As a result, in 9 months of 2005 the volume of the loans granted to the households for acquisition of housing increased rapidly by 68%, as well as the total volume of the mortgage lending increased by 72%.

In 2005 the commercial banks of Latvia have reduced the average interest rates for the loans granted in the national currency significantly. The average interest rates for the loans in lats granted to the households have dropped from 8.5 % (in January) to 6.3% (in September), but the average interest rates for the loans granted to the non-financial corporations – from 7.5% to 5.3% in the given period. The average interest rates for the loans in foreign currency granted to the households have decreased from 5.6% (in January) to 4.5% (in September), however, the average interest rates for the loans granted to the non-financial corporations increased from 4.5% to 4.9% in the given period.

## MANAGEMENT REPORT

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During 9 months of this year the average interest rates for the term deposits made in lats decreased: for the households - from no 3.8% to 2.8%, for the non-financial corporations – from 3.4% to 2.4%. Whereas, the average interest rates for the term deposits made in foreign currency have increased both for the households (from 2.3% to 2.6%) and non-financial corporations (from 1.9% to 2.5%).

Also in 2005 the Mortgage Bank continues its growth that is evidenced by the main financial indices. In 9 months of 2005 the assets of the Bank have reached 421 mln lats demonstrating a 35% increase, whereas the profit of the Bank was 2 061 thousand lats that exceeded the profit figures of the respective period last year by 828 thousand lats or 67%.

During 9 months of the year the gross loans' portfolio of the Bank has increased by 79 mln lats or 29% reaching 349 mln lats at the end of September. The Mortgage Bank took the 6<sup>th</sup> place in terms of the size of loan portfolio among other banks in Latvia with a market share of 5.7% and was the 7<sup>th</sup> largest bank in Latvia both in terms of granted mortgage loans (market share of 5.0 %) and housing loans granted to private persons (market share – 6.8%) as at the end of September 2005.

This year, taking care of its customers and their time, the Mortgage Bank introduced a new customer servicing standard – a mortgage loan in 15 minutes. The formalities related to the examination of the loan application have been streamlined as much as possible.

During 9 months of 2005 the volume of the deposits with the Bank has increased by 15% reaching 188 mln lats. Since March the Mortgage Bank offers new types of deposits with various interest disbursement options. There are also new types of deposits introduced – Child's Savings Account and Purpose Savings Account.

The volume of the mortgage bonds issued by the Mortgage Bank increased by 3,7 mln lats or 10% reaching 41,6 mln lats within 9 months of 2005.

In 2005 the Mortgage Bank continues to implement various development programmes providing support to specific groups of entrepreneurs and population in line with the government assignment. The following programmes are implemented: the Small and Medium-sized Enterprises (SME) Development Programme, Housing Development Lending Programme, Lending Programme for Long-term Investments in Agriculture, Lending Programme for Acquisition of Agricultural Land. The Mortgage Bank grants loans from the Energy Efficiency Fund and project 'Housing Improvement Initiative for Saving Energy' and keeps developing the micro-loans (loans up to EUR 25 000) and co-operation with the co-operative credit unions.

On 16 June 2005 fifteen banks from European Union (Germany, Austria and Luxembourg) signed an agreement with the Mortgage Bank about granting a long-term loan in the amount of 85 mln euros to the Bank. The maturity of the syndicated loan is seven years, the grace period - five years. So far, this is the largest agreement that a local commercial bank not owned by foreign credit or financial institution has concluded in Latvia. The Mortgage Bank will use the borrowed long-term financial resources to continue supporting the economic development of the country by lending to the SMEs, pursuing mortgage lending and also expanding micro-lending considerably.

In 2005 the Mortgage Bank organised several marketing campaigns advertising its services:

- To promote the development of SME lending a marketing campaign was organised in February telling about SME loans with the Mortgage Bank.

- The campaign 'The Real Mortgage Loans' aimed at the private persons was released in spring. The campaign advertised such terms and conditions that the Bank had never offered before – interest rate 1.49% plus 3 or 6 months interbank rate, loan up to 100% of the value of collateral as well as payment of the principal amount of the loan deferred for a year and a half. The target audience of the campaign was people who wanted either to purchase their first housing or move to a larger housing, as well as those who thought of refurbishing or repairing their present housing.

## MANAGEMENT REPORT

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- The campaign ‘Credit Card for the Price of the Debit Card’ ran from 26 May till 30 June. During the campaign one could obtain a credit card MasterCard Standard for free, without providing a deposit. Moreover, the fee for the use of the credit card was also reduced considerably.

- Continuing the successful tradition this summer (from 8 June till 12 August) the Mortgage Bank opened the annual campaign of the term deposits “*Ābele*” (Apple Tree). In autumn the Mortgage Bank offers the special cash deposit „*Ozols*” (Oak Tree).

The Bank continues to develop its settlement services:

- Since January there are two new payment options available in the Bank – Automatic Payments and Cash / Transfer settlements to giro numbers.

- In March in order to improve the servicing of the payment cards the Mortgage Bank shifted the servicing of its payment cards from the system of the *BankServiss* to a new payment cards’ management system with the Mortgage Bank. As a result, the transactions with the payment cards have become more convenient for the customers of the Mortgage Bank. Now a transfer to a payment card account made within a working day of the Mortgage Bank will be available as soon as the transaction is completed in the account of the Bank. Also now the payment card can be linked to the settlement account.

- As from April the holders of the payment cards issued by the Mortgage Bank can see and print out the balances of their accounts from ATMs of other banks. Likewise, the holders of the payment cards issued by other banks of Latvia can see the balances of their accounts in ATMs of the Mortgage Bank.

- As from July the money transfer services of the Western Union are available in the branches of the Mortgage Bank. These services are very demanded both for transferring money abroad and receiving transfers from the countries where the Western Union is represented.

On 15 April 2005 continuing to develop communication and co-operation with foreign partners the Mortgage Bank hosted the meeting of the permanent working group of the Network of the European Financial Institutions for SMEs (NEFI). This time Riga was selected as the venue of the meeting, because a special business support structure – Promotional Programmes’ Office (*APP*) was established in the Bank. Within the framework of the SME state support programmes *APP* helps perspective, rapidly growing enterprises and business start-ups by granting investment loans to real, well-elaborated and economically justified development projects.

The Mortgage Bank modernises and updates its network of branches and sub-branches to service the customers in the most efficient way. At the moment the Mortgage Bank has 30 branches, one in each district centre, and 8 sub-branches in various regions of Latvia that ensure servicing of the customers throughout Latvia.

Gundega Šulca  
Chairman of the Council

Inesis Feiferis  
Chairman of the Board

## SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS

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### **Supervisory Council (at 30 September 2005)**

Gundega Šulca	Chairman of the Council
Zaiga Liepiņa	Deputy Chairman of the Council
Uldis Apels	Member of the Council
Linda Kaņepe	Member of the Council
Vija Gēme	Member of the Council
Māris Klismets	Member of the Council
Laimdota Straujuma	Member of the Council

### **Board of Directors (at 30 September 2005)**

Inesis Feiferis	Chairman of the Board
Rolands Paņko	Deputy Chairman of the Board
Aija Laicāne	Member of the Board, Chief Accountant
Jēkabs Krieviņš	Member of the Board, Credit Director

There have been no changes among the members of the Board and Supervisory Council during the reporting period.

**STATEMENT OF RESPONSIBILITY OF THE SUPERVISORY  
COUNCIL AND THE BOARD OF DIRECTORS**

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Riga

9 November 2005

Supervisory Council and the Board of Directors (Management) is responsible for preparing the interim financial statements from the books of prime entry of the Bank and the Group for each financial period that present fairly the state of affairs of the Bank and the Group as at the end of the financial period and the results of its operations and cash flows for that period according to the accounting principles set forth in International Financial Reporting Standards.

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 7 to 18 for the period ended 30 September 2005. Management confirms that these financial statements have been prepared on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

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

Gundega Šulca  
Chairman of the Council

Inesis Feiferis  
Chairman of the Board

*PRICEWATERHOUSECOOPERS* 

*Mortgage and Land Bank of Latvia*  
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**INCOME STATEMENT**

(all amounts in thousands of Lats)

	Notes	9 months to 30 September 2005		9 months to 30 September 2004	
		Group	Bank	Group	Bank
Interest income		15,716	15,532	13,213	13,175
Interest expense		(7,961)	(7,961)	(6,255)	(6,256)
<b>Net interest income</b>		<b>7,755</b>	<b>7,571</b>	<b>6,958</b>	<b>6,919</b>
Fee and commission income		3,559	3,385	2,654	2,548
Fee and commission expense		(366)	(355)	(281)	(281)
<b>Net commission and fee income</b>		<b>3,193</b>	<b>3,030</b>	<b>2,373</b>	<b>2,267</b>
Result from dealing with securities and foreign exchange		1,161	1,150	589	566
Other operating income		2,544	1,365	1,982	1,515
<b>Operating income</b>		<b>14,653</b>	<b>13,116</b>	<b>11,902</b>	<b>11,267</b>
Staff costs		(4,217)	(4,078)	(3,956)	(3,862)
Administrative expenses		(4,268)	(3,762)	(3,705)	(3,567)
Depreciation and amortisation		(2,170)	(1,520)	(1,507)	(1,192)
<b>Operating expenses</b>		<b>(10,655)</b>	<b>(9,360)</b>	<b>(9,168)</b>	<b>(8,621)</b>
Provision for impairment losses	2	(1,301)	(1,301)	(1,121)	(1,121)
<b>Profit before income tax</b>		<b>2,697</b>	<b>2,455</b>	<b>1,613</b>	<b>1,525</b>
Income tax expense		(430)	(394)	(292)	(292)
<b>Net profit for the period</b>		<b>2,267</b>	<b>2,061</b>	<b>1,321</b>	<b>1,233</b>

The notes on pages 11 to 18 are an integral part of these financial statements.

These interim financial statements on pages 7 to 18 have been accepted by the Board of Directors on 2 November 2005 and accepted by the Supervisory Council on 9 November 2005 and are signed by:

Gundega Šulca  
Chairman of the Council

Inesis Feiferis  
Chairman of the Board

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**BALANCE SHEET**

(all amounts in thousands of Lats)

	Notes	30/09/05		31/12/04	
<u>Assets</u>		Group	Bank	Group	Bank
Cash and balances with Central Bank		15,154	15,154	8,851	8,851
Trading securities		2,248	2,248	3,003	3,003
Financial assets at fair value through profit or loss		7,982	7,982	7,870	7,870
Investment securities – available for sale		10,355	10,355	-	-
Due from credit institutions		27,789	27,704	13,635	13,602
Loans to customers	3	341,231	345,105	264,234	266,535
Investments in subsidiaries and associated entities	4	163	463	119	419
Intangible fixed assets		1,428	1,389	1,329	1,308
Property and equipment		12,761	7,877	11,274	8,184
Other assets		1,085	941	757	724
Deferred expenses and accrued income		2,250	2,276	1,723	1,721
<b>Total assets</b>		<b>422,446</b>	<b>421,494</b>	<b>312,795</b>	<b>312,217</b>
<u>Liabilities</u>					
Due to credit institutions	5	143,351	143,351	63,479	63,479
Due to customers	6	187,635	187,769	164,008	164,028
Derivative financial instruments		-	-	14	14
Transit funds		3,291	3,291	3,463	3,463
Mortgage bonds	7	41,197	41,197	37,504	37,504
Other liabilities		505	375	1,052	984
Deferred income and accrued expenses		5,363	4,724	4,018	3,563
Deferred tax liabilities		648	599	612	599
Subordinated liabilities		13,300	13,300	13,300	13,300
<b>Total liabilities</b>		<b>395,290</b>	<b>394,606</b>	<b>287,450</b>	<b>286,934</b>
<u>Shareholder's equity</u>					
Share capital		22,820	22,820	22,820	22,820
Reserve capital		2,001	2,001	2,001	2,001
Revaluation reserve on available for sale investments		6	6	-	-
Retained earnings		2,329	2,061	524	462
<b>Total shareholder's equity</b>		<b>27,156</b>	<b>26,888</b>	<b>25,345</b>	<b>25,283</b>
<b>Total liabilities and shareholder's equity</b>		<b>422,446</b>	<b>421,494</b>	<b>312,795</b>	<b>312,217</b>
<u>Off balance sheet items</u>					
Contingent liabilities		5,481	5,481	3,827	3,827
Financial commitments		24,024	27,332	9,942	10,727

The notes on pages 11 to 18 are an integral part of these financial statements.

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Chairman of the Council

Inesis Feiferis  
Chairman of the Board

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**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**

(all amounts in thousands of Lats)

	Share Capital	Reserve capital	Revaluation reserve on available for sale investments	Retained earnings	Total equity
<b>Balance as at 31 December 2003</b>	<b>20,058</b>	<b>3,576</b>	-	<b>425</b>	<b>24,059</b>
Distribution of profit	-	-	-	(425)	(425)
Capitalisation of reserves	2,762	(2,762)	-	-	-
Profit for the period	-	-	-	1,321	1,321
<b>Balance as at 30 September 2004</b>	<b>22,820</b>	<b>814</b>	-	<b>1,321</b>	<b>24,955</b>
Profit for the period	-	-	-	390	390
Transfer to reserves	-	1,249	-	(1,249)	-
<b>Balance as at 31 December 2004</b>	<b>22,820</b>	<b>2,063</b>	-	<b>462</b>	<b>25,345</b>
<i>Change in accounting policies</i>					
Change in accounting for investments in subsidiaries	-	(62)	-	62	-
<b>Restated balance as at 31 December 2004</b>	<b>22,820</b>	<b>2,001</b>	-	<b>524</b>	<b>25,345</b>
Distribution of profit	-	-	-	(462)	(462)
Net gains on available for sale investments	-	-	6	-	6
Profit for the period	-	-	-	2,267	2,267
<b>Balance as at 30 September 2005</b>	<b>22,820</b>	<b>2,001</b>	<b>6</b>	<b>2,329</b>	<b>27,156</b>

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*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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**CASH FLOW STATEMENT**  
(all amounts in thousands of Lats)

	<b>9 months to 30 September 2005</b>		<b>9 months to 30 September 2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
<b>Cash flow from operating activities</b>				
Profit before income tax	2,697	2,455	1,613	1,525
Depreciation and amortisation	2,170	1,520	1,507	1,192
Increase in provision for impairment losses	667	667	506	506
Loss from foreign exchange revaluation	1,171	1,171	124	148
Profit on sale of fixed assets	(36)	(13)	(5)	(5)
Increase in deferred income and accrued expenses	1,061	876	1,482	1,265
Increase in deferred expenses and accrued income	(653)	(680)	(302)	(320)
(Increase)/decrease in other assets	(344)	(234)	77	(126)
Decrease in other liabilities	(561)	(623)	(660)	(728)
<b>Increase in cash and cash equivalents from operating activities before changes in assets and liabilities</b>	<b>6,172</b>	<b>5,139</b>	<b>4,342</b>	<b>3,457</b>
Increase in securities	(9,712)	(9,712)	(628)	(628)
(Increase)/decrease in balances due from credit institutions	(105)	(105)	57	57
Increase in loans to customers	(77,522)	(79,095)	(64,498)	(65,529)
Increase in balances due to credit institutions	76,113	76,113	23,404	23,404
Increase in balances due to customers	23,627	23,741	21,431	21,415
Decrease in transit funds	(172)	(172)	(669)	(669)
Increase in mortgage bonds issued	3,693	3,693	7,049	7,049
<b>Increase/(decrease) in cash and cash equivalents from operating activities</b>	<b>22,094</b>	<b>19,602</b>	<b>(9,512)</b>	<b>(11,444)</b>
<b>Corporate income tax paid</b>	<b>(103)</b>	<b>(103)</b>	<b>(216)</b>	<b>(216)</b>
<b>Cash flow from investing activities</b>				
Purchases of property and equipment	(4,282)	(1,336)	(4,267)	(2,142)
Proceeds from property and equipment disposal	561	55	220	22
(Acquisition)/sale of investments in associated entities	(44)	(44)	2	2
	<b>(3,765)</b>	<b>(1,325)</b>	<b>(4,045)</b>	<b>(2,118)</b>
<b>Cash flow from financing activities</b>				
Proceeds from subordinated liabilities	-	-	5,000	5,000
Distribution of profit	(462)	(462)	(425)	(425)
	<b>(462)</b>	<b>(462)</b>	<b>4,575</b>	<b>4,575</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>17,764</b>	<b>17,712</b>	<b>(9,198)</b>	<b>(9,203)</b>
Cash and cash equivalents at the beginning of the period	22,319	22,286	20,181	20,166
Loss from foreign exchange revaluation	(1,171)	(1,171)	(124)	(148)
<b>Cash and cash equivalents at the end of the period</b>	<b>38,912</b>	<b>38,827</b>	<b>10,859</b>	<b>10,815</b>

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*for the nine months period ended 30 September 2005*

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**NOTES TO THE FINANCIAL STATEMENTS**

**1 ACCOUNTING POLICIES**

**(1) Basis of preparation**

The Bank's accounting is carried out in accordance with the legislation of the Republic of Latvia, including procedures for the credit institutions of Latvia. These interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting".

The accounting policies used in the preparation of these interim financial statements are consistent with those used in the audited annual financial statements for the year ended 31 December 2004, except as described below.

These interim financial statements should be read in conjunction with the 2004 annual financial statements.

**(2) Investments in subsidiaries**

For the Bank (unconsolidated) financial statements, investments in subsidiaries are accounted under the cost method. The Bank recognises income from the investment only to the extent that the Bank receives dividends from accumulated profits of the subsidiaries arising after the date of acquisition.

In previous financial statements, investments in subsidiaries were accounted for under the equity method. Under the equity method, the Bank's share of the post-acquisition profits or losses of subsidiaries was recognised in the income statement. The comparative figures for the Bank have been restated.

**(3) Investment securities – available for sale**

As a result of revision of IAS 39, as of 1 January 2005, gains or losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity, until the financial asset is derecognised or impaired in profit or loss. In previous financial statements, all gains and losses from revaluation of the available-for-sale securities were reported in the income statement.

Financial assets that were classified as *available-for-sale* as at 1 January 2005 were reclassified to *financial assets at fair value through profit or loss* in accordance with the transition rules of IAS 39. The comparatives were restated accordingly.

**(4) Taxation**

Current and deferred income tax charge for the nine months period ended 30 September 2005 has been calculated based on the annual effective income tax rate which is then applied against the actual profit for the nine months period. The annual effective income tax rate is based on the budgeted results for the Bank and Group for the whole year. The effective income tax rate applied by the Bank for these financial statements is 16.0% (9 months ended 30 September 2004: 19.1%).

**(5) Comparative information**

International Accounting Standard 34 "Interim Financial Reporting" requires that comparative information is disclosed. Financial results for the period ended 30 September 2004 and the year ended 31 December 2004 balances have been used as comparatives in these financial statements.

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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NOTES TO THE FINANCIAL STATEMENTS

**2 PROVISION FOR IMPAIRMENT LOSSES**

	<b>9 months to 30 September 2005</b>		<b>9 months to 30 September 2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Provision expense:				
- provisions for loans	1,561	1,561	1,269	1,269
- provisions for other assets	68	68	65	65
- provisions for accrued interest income receivable	246	246	160	160
	<u>1,875</u>	<u>1,875</u>	<u>1,494</u>	<u>1,494</u>
Release of provisions:				
- provisions for loans	(496)	(496)	(268)	(268)
- provisions for accrued interest income receivable	(78)	(78)	(105)	(105)
	<u>(574)</u>	<u>(574)</u>	<u>(373)</u>	<u>(373)</u>
<b>Total provision for impairment losses - expense</b>	<u><b>1,301</b></u>	<u><b>1,301</b></u>	<u><b>1,121</b></u>	<u><b>1,121</b></u>

**3 LOANS TO CUSTOMERS**

<b>(a) Loans from general funds</b>	<b>30/09/05</b>		<b>31/12/04</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Local government	967	945	1,346	1,329
State owned companies	334	334	17	17
Private companies	214,353	220,524	159,510	163,213
Individuals	124,410	122,168	101,402	100,069
Management / staff	3,092	3,065	2,967	2,915
Public and religious institutions	465	459	255	255
	<u>343,621</u>	<u>347,495</u>	<u>265,497</u>	<u>267,798</u>
Provisions for loan impairment losses	<u>(4,270)</u>	<u>(4,270)</u>	<u>(3,744)</u>	<u>(3,744)</u>
	<u><b>339,351</b></u>	<u><b>343,225</b></u>	<u><b>261,753</b></u>	<u><b>264,054</b></u>

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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NOTES TO THE FINANCIAL STATEMENTS

**3 LOANS TO CUSTOMERS (continued)**

(b) Loans from transit funds	30/09/05		31/12/04	
	Group	Bank	Group	Bank
Private companies	1,876	1,876	2,421	2,421
Individuals	44	44	101	101
	<b>1,920</b>	<b>1,920</b>	<b>2,522</b>	<b>2,522</b>
Provisions for loan impairment losses	(40)	(40)	(41)	(41)
	<b>1,880</b>	<b>1,880</b>	<b>2,481</b>	<b>2,481</b>
<b>Total net loans</b>	<b>341,231</b>	<b>345,105</b>	<b>264,234</b>	<b>266,535</b>

Under the Subsidiary Loan agreement between the Bank and the Ministry of Finance, the Bank assumes credit risk related to transit loans disbursed. Therefore, provisions are created for the transit loan portfolio by the Bank.

(c) Analysis of movement in provisions for loan impairment losses	30/09/05		31/12/04	
	Group	Bank	Group	Bank
As at beginning of the period	3,785	3,785	2,825	2,825
Increase of provisions	1,561	1,561	1,882	1,882
Release from provisions	(496)	(496)	(347)	(347)
Adjustment (foreign exchange fluctuation)	83	83	7	7
Write-off of loans	(623)	(623)	(582)	(582)
<b>As at end of the period</b>	<b>4,310</b>	<b>4,310</b>	<b>3,785</b>	<b>3,785</b>

(d) Maturity profile	30/09/05		31/12/04	
	Group	Bank	Group	Bank
Overdue	3,331	3,290	1,129	1,129
<b>Falling due within:</b>				
1 month	6,685	6,665	7,296	6,918
1 – 3 months	10,838	10,715	11,528	10,834
3 – 6 months	19,249	19,100	25,879	24,857
6 – 12 months	31,698	30,800	28,048	26,149
1 – 5 years	152,306	157,532	106,733	113,027
more than 5 years	121,434	121,313	87,406	87,406
<b>Total gross loans</b>	<b>345,541</b>	<b>349,415</b>	<b>268,019</b>	<b>270,320</b>
Less provision for loan impairment losses	(4,310)	(4,310)	(3,785)	(3,785)
<b>Total net loans to customers</b>	<b>341,231</b>	<b>345,105</b>	<b>264,234</b>	<b>266,535</b>

The average interest rate for the loan portfolio as at 30 September 2005 was 5.88% per annum (7.17 % at 31 December 2004).

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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**NOTES TO THE FINANCIAL STATEMENTS**

**4 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES**

The Bank's investments in subsidiaries and associated entities are specified as follows:

	<b>Share capital</b>	<b>Total equity</b>	<b>Bank's share (%)</b>	<b>Investment value 30/09/05</b>	<b>Investment value 31/12/04</b>
SIA "Hipolizings"	300	568	100%	300	300
SIA "Hipotēku bankas finanšu konsultāciju centrs"	50	-320	100%	50	50
SIA "Hipotēku bankas nekustamā īpašuma aģentūra"	50	408	100%	50	50
KS "Mazo un vidējo komersantu atbalsta fonds"	130	123	47.62%	63	19
<b>Total</b>				<b>463</b>	<b>419</b>

SIA "Hipolizings" was registered in the Enterprise Register of the Republic of Latvia on 22 January 2003. The primary business of the Company is leasing and factoring services.

SIA "Hipotēku bankas nekustamā īpašuma aģentūra" was registered in the Enterprise Register of the Republic of Latvia on 14 January 1999. The primary business of the Company is related to real estate, i.e. administration, rent, lease, and other activities related to real estate.

SIA "Hipotēku bankas finanšu konsultāciju centrs" was registered in the Enterprise Register of the Republic of Latvia on 24 January 2002. The primary business of the Company is consulting services relating to the Bank's services, market investigation and professional training.

Limited partnership "Mazo un vidējo komersantu atbalsta fonds" was registered in the Enterprise Register of the Republic of Latvia on 20 May 2004. Limited partnership is acting as a risk capital investment fund with an aim to promote the development of small and medium-size businesses and development of new businesses.

**5 DUE TO CREDIT INSTITUTIONS**

	<b>30/09/05</b>		<b>31/12/04</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
On demand	2,635	2,635	26	26
Short term	5,636	5,636	2,883	2,883
Long term	135,080	135,080	60,570	60,570

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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**NOTES TO THE FINANCIAL STATEMENTS**

	<u>143,351</u>	<u>143,351</u>	<u>63,479</u>	<u>63,479</u>
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Due to credit institutions include long-term loans from foreign banks for realisation of credit for Small and Medium Size Enterprise Development Program and Housing Development Program. As at 30 September 2005 long-term liabilities to credit institutions included borrowings from German Development Bank (Kreditanstalt für Wiederaufbau) in amount of EUR 25,704 thousand (LVL 18,065 thousand), Council of Europe Development Bank in amount of USD 9,592 thousand (LVL 5,592 thousand) and EUR 8,019 thousand (LVL 5,636 thousand), Nordic Investment Bank in amount of USD 9,592 thousand (LVL 5,592 thousand) and EUR 17,565 thousand (LVL 12,345 thousand), European Investment Bank in amount of EUR 30,000 thousand (LVL 21,084 thousand), SACHEN/LB (Landesbank Sachsen Girozentrale) in amount of EUR 10,000 thousand (LVL 7,028 thousand) and syndicated loan from 15 Europeans banks in amount of EUR 85,000 thousand (LVL 59,738 thousand).

**5 DUE TO CREDIT INSTITUTIONS (continued)**

The average interest rate payable on long - term borrowings from foreign credit institutions, as at 30 September 2005 was 2.82% per annum (as at 31 December 2004 – 2.70%).

**6 CUSTOMER DEPOSITS**

	30/09/05		31/12/04	
	Group	Bank	Group	Bank
<u>Demand deposits:</u>				
Central government	2	2	2	2
Local government	2,203	2,203	1,982	1,982
State owned companies	1,291	1,291	813	813
Private financial institutions	117	251	317	337
Private companies	21,287	21,287	16,254	16,254
Individuals	29,131	29,131	19,781	19,781
Public and religious organisations	652	652	744	744
	<u>54,683</u>	<u>54,817</u>	<u>39,893</u>	<u>39,913</u>

	30/09/05		31/12/04	
	Group	Bank	Group	Bank
<u>Term deposits:</u>				
Central government	2,600	2,600	-	-
Local government	2,034	2,034	1,251	1,251
State owned companies	5,072	5,072	4,818	4,818
Private financial institutions	17,377	17,377	10,976	10,976
Private companies	7,662	7,662	10,418	10,418
Individuals	97,822	97,822	96,158	96,158
Public and religious organisations	385	385	494	494
	<u>132,952</u>	<u>132,952</u>	<u>124,115</u>	<u>124,115</u>

<b>Total deposits</b>	<u>187,635</u>	<u>187,769</u>	<u>164,008</u>	<u>164,028</u>
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*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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**NOTES TO THE FINANCIAL STATEMENTS**

99.3% of the deposits with the Bank are the Bank's liabilities to residents of Latvia, 0.5% are liabilities to OECD residents, and the remaining 0.2% of the deposits are liabilities to non-OECD residents.

The average interest rate for demand deposits at 30 September 2005 was 0.5% (0.9% at 31 December 2004), for term deposits – 3.8% (4.1% at 31 December 2004).

**6 CUSTOMER DEPOSITS (continued)**

**Maturity profile**

	30/09/05		31/12/04	
	Group	Bank	Group	Bank
<b>Total demand deposits</b>	<b>54,683</b>	<b>54,817</b>	<b>39,893</b>	<b>39,913</b>
<b>Term deposits due:</b>				
- up to 1 month	20,128	20,128	18,746	18,746
- from 1 to 3 months	36,923	36,923	12,590	12,590
- from 3 to 6 months	18,236	18,236	29,499	29,499
- from 6 to 12 months	26,942	26,942	39,437	39,437
- from 1 to 5 years	30,644	30,644	23,842	23,842
- more than 5 years	79	79	1	1
<b>Total term deposits</b>	<b>132,952</b>	<b>132,952</b>	<b>124,115</b>	<b>124,115</b>
<b>Total deposits</b>	<b>187,635</b>	<b>187,769</b>	<b>164,008</b>	<b>164,028</b>

**7 MORTGAGE BONDS**

Total amount of the debt securities issued by the Bank as at 30 September 2005 consists of mortgage bonds in circulation with a total nominal value of LVL 41,587 thousand (as of 31 December 2004: LVL 37,912 thousand). As at 30 September 2005, mortgage bonds with a total nominal value of LVL 416 thousand (as at 31 December 2004: LVL 420 thousand) were repurchased by the Bank. Mortgage bonds are shown net of repurchases with a nominal value of LVL 41,171 thousand and a book value of LVL 41,197 thousand (as of 31 December 2004: LVL 37,504 thousand).

The purpose of issuing was to attract financial resources for refinancing of the long-term mortgage loans. The average yield to maturity of the mortgage bonds denominated in lats fluctuated from 3.15% up to 4.8% per annum depending on the maturity of mortgage bonds. The average yield to maturity of the mortgage bonds denominated in US dollars fluctuated from 4.74% up to 4.8% per annum.

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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**NOTES TO THE FINANCIAL STATEMENTS**

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

During the first nine months of 2005, the Bank issued AN series mortgage bonds for the total amount of LVL 3,000 thousand, but redeemed LVL 1,000 thousand of AF series mortgage bonds.

**7 MORTGAGE BONDS (continued)**

**Statement on Mortgage bond coverage as at 30 September 2005**

**(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
LV0000800126	AD	30,000	100 LVL	3,000,000 LVL	6.5%	15.08.2006.	2,994,000	3,007,059
LV0000800092	AG	30,000	100 LVL	3,000,000 LVL	7.5%	15.08.2007.	2,755,200	2,752,468
LV0000800118	AI	20,000	100 LVL	2,000,000 LVL	7.0%	15.08.2008.	1,977,600	2,025,652
LV0000800167	AJ	30,000	100 LVL	3,000,000 LVL	3.25%*	15.08.2008.	2,995,000	2,995,000
LV0000800183	AK	30,000	100 LVL	3,000,000 LVL	3.25%*	15.08.2009.	2,935,600	2,935,600
LV0000800266	AN	30,000	100 LVL	3,000,000 LVL	3.25%*	15.08.2010.	3,000,000	3,007,981
LV0000800100	AH	20,000	100 LVL	2,000,000 LVL	7.5%	15.08.2011.	1,129,200	1,124,978
LV0000800217	BA	100,000	100 USD	10,000,000 USD	4.75%**	15.08.2011.	5,830,000	5,830,000
LV0000800142	AL	50,000	100 LVL	5,000,000 LVL	6.0%	15.08.2012.	4,959,300	4,947,753
LV0000800159	AM	70,000	100 LVL	7,000,000 LVL	5.25%	15.08.2013.	3,849,900	3,825,927
LV0000800241	BB	150,000	100 USD	15,000,000 USD	4.75%***	15.08.2014.	8,745,000	8,745,000
<b>Total</b>							<b>41,170,800</b>	<b>41,197,418</b>

\* floating coupon rate (6 month RIGIBOR plus 0.5%) that are revised twice every year on 15<sup>th</sup> February and 15<sup>th</sup> August

\*\* floating coupon rate (6 month LIBOR plus 0.8%) that are revised twice every year on 15<sup>th</sup> February and 15<sup>th</sup> August

\*\*\* floating coupon rate (6 month LIBOR plus 0.7%) that are revised twice every year on 15<sup>th</sup> February and 15<sup>th</sup> August

**(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 2005 amounted to LVL 75,177 thousand (as at 31 December 2004: LVL 53,770 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans (ordinary cover) in the amount of LVL 70,927 thousand (as at 31 December 2004: LVL 52,529 thousand) and substitute cover amounting to LVL 4,250 thousand (as at 31 December 2004: LVL 1,241 thousand).

As at 30 September 2005, a ratio of substitute cover against amount of mortgage bonds in circulation (maximum statutory allowed – 20%) was 10.2% (as at 31 December 2004: 3.3%),

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

**NOTES TO THE FINANCIAL STATEMENTS**

while the amount of assets included in the Mortgage Bond Cover Register exceeds the amount of mortgage bonds in circulation by 49.7% (as at 31 December 2004: 33.9%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

**7 MORTGAGE BONDS (continued)**

**(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*	Principal Payments	Interest Payments	Redemption Payments	Coupon Payments	Substitute Cover	Mortgage Bond Cover Sufficiency  (1+2+3-4-5+6)
A	1	2	3	4	5	6	7
15.02.2006	0	2,226	1,451	-	(1,067)	-	2,610
15.08.2006	2,226	3,585	1,924	(3,000)	(1,067)	-	3,668
15.02.2007	2,811	2,838	1,821	-	(969)	-	6,501
15.08.2007	5,649	3,343	1,727	(3,000)	(969)	-	6,750
15.02.2008	5,992	2,765	1,632	-	(857)	-	9,532
15.08.2008	8,757	3,414	1,541	(5,000)	(857)	-	7,855
15.02.2009	7,171	2,756	1,445	-	(738)	-	10,634
15.08.2009	9,927	3,212	1,358	(3,000)	(738)	-	10,759
15.02.2010	10,139	2,623	1,267	-	(689)	-	13,340
15.08.2010	12,762	2,800	1,182	(3,000)	(689)	-	13,055
15.02.2011	12,562	2,494	1,101	-	(641)	-	15,516
15.08.2011	15,056	3,379	1,022	(6,980)	(641)	-	11,836
15.02.2012	11,455	2,309	930	-	(459)	-	14,235
15.08.2012	13,764	2,956	861	(5,000)	(459)	-	12,122
15.02.2013	11,720	2,630	764	-	(309)	-	14,805
15.08.2013	14,350	5,281	667	(3,862)	(309)	-	16,127
15.02.2014	15,769	3,373	525	-	(208)	-	19,459
15.08.2014	19,142	14,062	750	(8,745)	(208)	-	25,001
15.02.2015	24,459	4,881	215	-	-	-	29,555
<b>Total</b>	<b>X</b>	<b>70,927</b>	<b>22,183</b>	<b>(41,587)</b>	<b>(11,874)</b>	<b>-</b>	<b>X</b>

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

	<b>30/09/05 Bank</b>	<b>31/12/04 Bank</b>
Residential mortgage loans	33,371	25,424

*Mortgage and Land Bank of Latvia*  
*Interim Condensed Consolidated and Banks Financial Statements*  
*for the nine months period ended 30 September 2005*

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NOTES TO THE FINANCIAL STATEMENTS

Commercial mortgage loans	<u>37,556</u>	<u>27,105</u>
<b>Total mortgage loans</b>	<b><u>70,927</u></b>	<b><u>52,529</u></b>