

**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**

**30 June 2005**

(the last date of the accounting period)

*(thousands of LVL)*

Items	Accounting period	Previous accounting year
Cash and balances with Central Bank	11 410	8 851
Due from credit institutions	14 866	13 602
Loans to customers	306 737	266 535
Fixed income securities	16 346	10 826
Equity securities available for sale	83	47
Derivatives	75	-
Investments in subsidiaries and associated entities	524	481
Intangible assets	1 454	1 308
Fixed assets	7 969	8 184
Other assets	3 451	2 445
<b>Total assets</b>	<b>362 915</b>	<b>312 279</b>
Due to credit institutions	94 063	63 479
Customer deposits	182 252	167 491
Debt securities issued	41 155	37 504
Derivatives	-	14
Other liabilities	6 079	5 146
Subordinated capital	13 300	13 300
Shareholder's equity	26 066	25 345
<b>Total liabilities</b>	<b>362 915</b>	<b>312 279</b>
Contingent liabilities	6 856	3 827
Due to customers	24 041	10 727
Assets under management	-	-

## Profit and Loss Statement

**30 June 2005**

(the last date of the accounting period)

*(thousands of LVL)*

Item	Accounting period	Corresponding period of the previous year
Interest income	10 183	8 524
Interest expense	(5 119)	(4 001)
Result from dealing with securities and foreign exchange	-	-
Fees and commission income	2 141	1 605
Fees and commission expense	(199)	(156)
Profit/loss from trade in financial instruments	490	349
Other operating income	835	788
Administrative expenses	(5 143)	(4 720)
Depreciation and amortisation	(999)	(770)
Other operating expenses	-	-
Provision for doubtful debts	(1 298)	(928)
Income from release from provisions	510	344
Profit/loss from revaluation of long-term financial investments	-	-
Profit/loss from investments in subsidiaries and associated entities	-	-
Operating profit/loss	1 401	1 035
Extraordinary income	-	-
Extraordinary expenses	-	-
Profit/loss before taxation	1 401	1 035
Income tax	(218)	(175)
<b>Net profit/loss for the accounting period</b>	<b>1 183</b>	<b>860</b>

## Performance Results of Bank

**30 June 2005**

(the last date of the accounting period)

Items	Accounting period	Previous accounting year
Return on equity (ROE) (%)	9.68%	7.27%
Return on assets (ROA) (%)	0.70%	0.62%

## Consolidation Group

30 June 2005

(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 into account 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. The ratings are monitored constantly 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 the debt securities – mortgage bonds traded on the stock exchange.

Ratings assigned to Mortgage Bank (reconsidered on June 2005 and retained immutable):

- the financial strength rating (**D -**);
- the rating of long-term foreign currency bank deposits (**A2**);
- the rating of short-term foreign currency deposits (**P1**);
- the rating of mortgage bonds issued (**A1**).

Inesis Feiferis  
Chairman of the Board

Aija Laicāne  
Chief Accountant