

**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**

**31 March 2006**

(the last date of the accounting period)

*(thousands of LVL)*

Items	Accounting period	Previous accounting year
Cash and balances with Central Bank	18 198	15 843
Due from credit institutions	13 832	20 768
Loans to customers	401 873	378 651
Fixed income securities	25 431	26 671
Equity securities available for sale	130	113
Derivatives	28	-
Investments in subsidiaries and associated entities	474	474
Intangible assets	1 436	1 306
Fixed assets	7 819	7 974
Other assets	3 490	3 498
<b>Total assets</b>	<b>472 711</b>	<b>455 298</b>
Due to credit institutions	172 496	152 072
Customer deposits	195 901	197 505
Debt securities issued	32 987	33 627
Derivatives	66	-
Other liabilities	2 793	3 535
Subordinated capital	13 491	13 302
Shareholder's equity	54 977	55 257
<b>Total liabilities</b>	<b>472 711</b>	<b>455 298</b>
Contingent liabilities	3 132	4 605
Due to customers	36 830	26 915
Assets under management	-	-

## Profit and Loss Statement

31 March 2006

(the last date of the accounting period)

*(thousands of LVL)*

Item	Accounting period	Corresponding period of the previous year
Interest income	6 117	5 054
Interest expense	(3 062)	(2 515)
Result from dealing with securities and foreign exchange	-	-
Fees and commission income	1 243	886
Fees and commission expense	(117)	(85)
Profit/loss from trade in financial instruments	177	232
Other operating income	526	386
Administrative expenses	(2 761)	(2 514)
Depreciation and amortisation	(548)	(495)
Other operating expenses	-	-
Provision for doubtful debts	(481)	(606)
Income from release from provisions	214	282
Profit/loss from revaluation of long-term financial investments	-	-
Profit/loss from investments in subsidiaries and associated entities	-	-
Operating profit/loss	1 308	625
Extraordinary income	-	-
Extraordinary expenses	-	-
Profit/loss before taxation	1 308	625
Income tax	(191)	(89)
<b>Net profit/loss for the accounting period</b>	<b>1 117</b>	<b>536</b>

## Performance Results of Bank

31 March 2006

(the last date of the accounting period)

Items	Accounting period	Previous accounting year
Return on equity (ROE) (%)	8.16%	16.40%
Return on assets (ROA) (%)	0.96%	1.16%

## Consolidation Group

31 March 2006

(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"	LV – Latvia 40003426895	CKS	100	100	MS
2.	SIA "Hipotēku bankas finanšu konsultāciju centrs"	LV – Latvia 40003579516	CFI	100	100	MS
3.	SIA "Hipolīzings"	LV – Latvia 40003616329	CFI	100	100	MS
4.	KS "Mazo un vidējo komersantu atbalsta fonds"	LV – Latvia 40003681329	CFI	47.62	47.62	KS

\* 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**).

In March 2006 Moody's changed rating outlook for the long – term deposit rating of Mortgage Bank to positive from stable.

Rolands Paņko  
Deputy Chairman of the Board

Aija Laicāne  
Chief Accountant