

**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 2004

(the last date of the accounting period)

(thousands of LVL)

Items	Accounting period	Previous accounting year
Cash and balances with Central Bank	5 772	7 293
Due from credit institutions	7 944	15 274
Loans to customers	223 696	188 774
Fixed income securities	11 736	10 543
Equity securities available for sale	32	18
Derivatives	87	-
Investments in subsidiaries and associated entities	342	344
Intangible assets	1 193	909
Fixed assets	7 471	6 827
Other assets	2 655	2 200
Total assets	260 928	232 182
Due to credit institutions	52 081	40 218
Customer deposits	143 892	132 521
Debt securities issued	22 266	22 846
Derivatives	-	-
Other liabilities	4 895	4 238
Subordinated capital	13 300	8 300
Shareholder's equity	24 494	24 059
Total liabilities	260 928	232 182
Contingent liabilities	2 002	1 180
Due to customers	16 830	10 903
Assets under management	-	-

Profit and Loss Statement

30 June 2004

(the last date of the accounting period)

(thousands of LVL)

Item	Accounting period	Corresponding period of the previous year
Interest income	8 524	7 356
Interest expense	(4 001)	(3 342)
Result from dealing with securities and foreign exchange	-	-
Fees and commission income	1 605	1 263
Fees and commission expense	(156)	(94)
Profit/loss from trade in financial instruments	349	345
Other operating income	788	817
Administrative expenses	(4 720)	(4 257)
Depreciation and amortisation	(770)	(593)
Other operating expenses	-	-
Provision for doubtful debts	(928)	(1 204)
Income from release from provisions	344	661
Profit/loss from revaluation of long-term financial investments	-	-
Profit/loss from investments in subsidiaries and associated entities	-	-
Operating profit/loss	1 035	952
Extraordinary income	-	-
Extraordinary expenses	-	-
Profit/loss before taxation	1 035	952
Income tax	(175)	(148)
Net profit/loss for the accounting period	860	804

Performance Results of Bank

30 June 2004

(the last date of the accounting period)

Items	Accounting period	Previous accounting year
Return on equity (ROE) (%)	7.34%	7.02%
Return on assets (ROA) (%)	0.69%	0.78%

Consolidation Group

30 June 2004

(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 finanšu konsultāciju centrs" 000357951	LV - Latvia	CKS	100	100	MS
3.	SIA "Hipolīzings" 000361632	LV - Latvia	CFI	100	100	MS
4.	SIA "Rapsis" 000361407	LV - Latvia	CKS	100	100	MS
5.	SIA "Tilžas rapsis" 000363898	LV - Latvia	CKS	86	86	MS
6.	SIA "Vārmes rapsis" 000363913	LV - Latvia	CKS	58	58	MS
7.	SIA "Vandzenes rapsis" 000364281	LV - Latvia	CKS	51	51	MS
8.	SIA "Viesturu rapsis" 000368531	LV - Latvia	CKS	76	76	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.

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

2nd 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 3rd and the 4th group.

Mortgage Bank is currently placed in the 2nd 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:

- 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**).

These ratings were assigned in December 2002. The next changes to the ratings could be made in the year 2004.

Inesis Feiferis
Chairman of the Board

Aija Laicāne
Chief Accountant