

**Rating Action: Mortgage and Land Bank of Latvia**

**Moody's downgrades Mortgage and Land Bank of Latvia to A3/P-2**

**D- BFSR affirmed; negative outlook on all ratings**

London, 07 November 2008 -- Moody's Investors Service today downgraded the long- and short-term foreign currency deposit rating of Mortgage and Land Bank of Latvia to A3 from A2 and to Prime-2 from Prime-1 respectively. This rating action has been prompted by the downgrade of Latvia's foreign currency deposit ceiling to A3 from A2. The bank's D- bank financial strength rating (BFSR) was affirmed. The outlook on long-term deposit rating and BFSR is negative.

On 7 November 2008, Moody's Sovereign Risk Unit downgraded the foreign and local currency ratings of the Government of Latvia to A3 from A2; the outlook on all ratings remains negative (see separate press release). According to Moody's, the downgrade was prompted by the recent worsening of the global liquidity crisis, which is likely to amplify deleveraging, thereby having a severe impact on the Latvian economy. Moody's expects the government's financial strength to experience a relatively long-lasting impairment as the weak economy will cause the budget deficit and public debt to swell.

According to Moody's the negative outlook on the BFSR of Mortgage and Land Bank of Latvia reflects concerns with regard to the trend in the bank's asset quality in light of the deteriorating economic environment in Latvia. The rating agency cautioned that the economic downturn, which is already well underway, is now likely to be much worse than previously anticipated. Therefore, Moody's said that it believes that this may exert pressure on the overall debt service ability of both companies and households, and thus have a negative impact on the bank's asset quality going forward. In particular, according to Moody's Mortgage and Land Bank of Latvia is facing increasing challenges due to its high exposure to the real estate sector but also to SMEs, which in turn is due to its operational mandate to support the economic development in Latvia. Moody's said that both of these sectors could be adversely affected by the current economic slowdown.

Mortgage and Land Bank of Latvia's exposure to real estate (residential and commercial) accounts for over 30% of the total loan portfolio (or over 400% of its Tier 1 capital). The bank continues to report satisfactory asset quality. However, due to strong lending growth over recent years and the current economic slowdown, Moody's said it expects its problem loan ratio to continue to rise. The bank's problem loans (i.e. individually impaired and over 90 days past due but not impaired loans) accounted for 2.4% of gross loans at end-June 2008, up from 1.9% at the beginning of the year.

Nevertheless, the bank's deposit ratings benefit from a very high systemic support reflecting the fact that it is wholly owned by the Latvian government and consequently the expectation that state support would be forthcoming if necessary. At end-September 2008, the bank was the eighth largest bank in Latvia with a market share of 4.2% by total assets.

Moody's previous rating action on the bank was on 26 September 2008, when the outlook on the long-term foreign currency deposit rating (then A2) was changed to negative.

Headquartered in Riga, Latvia, Mortgage and Land Bank of Latvia reported consolidated assets of LVL997 million (EUR1.4 billion) at end-June 2008.

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