MORTGAGE AND LAND BANK OF LATVIA

Interim Condensed Consolidated and Bank Financial Statements for the three months period ended 31 March 2009 (unaudited)

MORTGAGE AND LAND BANK OF LATVIA
MANAGEMENT REPORT

3 months of 2009

In 2009 the development pace of the economy of Latvia continues to decelerate rapidly, the dynamics of development has become negative. Decrease in the economic activity has gravely influenced the revenues of the state budget. As a result, the government approached the International Monetary Fund (IMF), European Commission (EC) and other institutions with an aim to borrow the funds for covering of the budgetary deficit. At the beginning of the year 2009 unemployment has gradually increased due to scaling down and termination of the operation of many companies. Unemployment will continue its expansion also in the second half of the year due to the reforms expected in the government institutions. It is difficult to attract the funds to convalescence of the economy as the financial market has limited and rather expensive funds, the credit risk has increased considerably and banking sector concentrates on improvement of quality of the existing portfolio. Nevertheless, a considerable drop in the domestic demand has promoted improvement of the trade balance of Latvia as well as swift decrease in the inflation indicators.

In 2009 the banking services in Latvia are provided by 21 banks and 6 branches of foreign banks. Also the Bank of Latvia has registered seven electronic money market institutions and three money market funds. In the 1st quarter of 2009 the assets of the banks have decreased by 4.5%, reaching 22,2 bln lats at the end of March, the loans' portfolio, also deposits (including the transit funds) decreased by 1%, but capital and reserves – by 2%. In the first 3 months of 2009 the losses of the banks reached 51,3 mln lats mostly due to accumulation of provisions for non-profit loans.

To the contrary of the tendency of the banking sector the volume of gross assets of the Mortgage Bank increased by 27,5 mln lats or 3% reaching 989,7 mln lats in the 1st quarter of the year 2009. At the end of March the Mortgage Bank ranked eighth among the commercial banks of Latvia by its asset volume (market share – 4.5%). In the 1st quarter the unaudited profit of the Bank reached 0,51 mln lats.

Within the first 3 months of 2009 the gross loans' portfolio of the Mortgage Bank has decreased by 16,6 mln lats or 2%, reaching 715 mln lats. By loans' portfolio the Bank ranked sixth among the commercial banks of Latvia (market share 4.4%) at the end of March. The Mortgage Bank was the eighth largest bank in Latvia by corporate loan volume (market share – 5.1%) and seventh by lending to natural persons (market share – 3.3%).

In the 1st quarter of 2009 the volume of deposits with the Bank has stayed at the level of 302 mln lats. At the end of March the Mortgage Bank ranked tenth among Latvian commercial banks by its deposit (including transit funds) volume (market share – 3.2%).

In January 2009 the equity capital of the Bank was increased by 29,5 mln lats or 61% reaching 78 mln lats.

In February 2009 the Mortgage Bank and Privatisation Agency concluded a share purchase agreement on sale of shares of Parex Bank owned by Mortgage Bank to Privatisation Agency.

In the 1st quarter of 2009 on behalf of the government the Mortgage Bank proceeded with implementation of various development programmes providing support to certain groups of entrepreneurs and population – Small and Medium Enterprises Lending Programme, Housing Guarantee Programme, rural development programmes. Being state-owned the Mortgage Bank pays particular attention to competitiveness raising loans aimed to help the Latvian entrepreneurs to continue with their business in the circumstances of economic downslide and financial crisis.

Already in 2008 to boost entrepreneurship in Latvia the Cabinet decided (decree No 275, 22.05.2008) to start a new Support Programme for Improvement of Competitiveness of Businesses to be implemented by Mortgage Bank. By the end of March loans for the total amount of 22,7 mln lats were granted within the framework of the programme. In view of the recent deterioration of the economic situation both in Latvia and its export markets, the entrepreneurs needed additional support in the shape of loans, but the commercial banks were not ready to provide it due to scarce financial resources and increased risk. On 17 February 2009 to support the competitive companies the Cabinet passed regulations No 164 Regarding Loans for Raising of Competitiveness of Businesses. The regulations provide for lending to entrepreneurs through the Mortgage Bank the total earmarked amount being LVL 210 mln lats. It is planned to change the terms of loans already granted (increased maximum loan amount, limited range of branches to be supported, limited borrowing for small scale projects and business start-ups).

On March 10, 2009 the Cabinet adopted regulations No 238 Regarding Activity 2.2.1.4 "Loans for Raising of Business Competitiveness" of the Supplement of Action Programme "Business and Innovations" that prescribe establishment of the Loan Fund as a separate financial resources unit in the Mortgage Bank for lending to the entrepreneurs under Cabinet Regulations No 164 (regarding loans for raising of competitiveness of businesses). The Loan Fund consists of the public financing in the amount of EUR 61,6 mln and financing of the Mortgage Bank - EUR 21,6 mln. Lending from the Loan Fund will start in the 2nd quarter.

In the 1st quarter in accordance with the Cabinet Decree No 752 dated 2 December 2008 the Mortgage Bank commenced implementation of the Small and Medium Enterprises Microlending Programme that granted microloans up to 3 thousand lats. The total financing of the programme is 564,8 thsd lats. In the 1st quarter the Mortgage Bank granted microloans for the total amount of 90 thsd lats.

In March the Bank signed co-operation agreements with the leaders of all five regional funds established in Latvia (funds of Valmiera, Talsi, Alūksne, Liepāja and Lielvārde) as well as councils of Limbaži, Ogre and Ērgļi regions, and Jūrkalne parish council on organisation of project competition. The Bank will support the best projects promoting initiative and activity of local population in improvement of their surrounding environment submitted to the fund's competition.

This is the third recurrent year since the Mortgage Bank participates in the campaign "Praise good service!" This year record high number of companies – 75 joined the campaign. The clients of the Mortgage Bank have appreciated quality of the Bank's services by ranking Preiļi Branch among the top ten most praised places of good service.

At the beginning of 2009 the international rating agencies started to downgrade the credit ratings of Latvia. Standard & Poor's Rating Services and Fitch Ratings downgraded Latvia's sovereign credit ratings to *BB+* that was the highest speculative rating, noting that the downgrading reflected the worsening of the economic situation faster than anticipated. *Moody's Investors Service Ltd* downgraded the sovereign rating on Latvia to the lowest investment grade rating *Baa3*. The Mortgage Bank is 100% owned by state and its rating may not exceed Latvia's sovereign rating. For this reason *Moody's Investors Service Ltd* lowered the credit ratings of the Mortgage Bank along with the downgrading of the sovereign rating. The Bank is assigned the following investment grade ratings:

- long-term foreign currency deposits – ***Baa3*** (outlook – negative),
- short-term foreign currency deposits – ***P2***,
- financial strength rating – ***D-*** (outlook – negative),
- rating of mortgage bonds – ***Baa2***.

In the 1st quarter of 2009 the Bank serviced its clients in 29 branches located in Riga and district centres of Latvia and 8 sub-branches in various regions of country. 7 new ATMs were installed in the 1st quarter of 2009.

As at the end of the 1st quarter of 2009 the ATM network of the Mortgage Bank was expanded to already 64 ATMs. In January 2009 an agreement about usage of "friendly ATMs" was concluded also with Parex banka – as of February the customers of Mortgage Bank can withdraw cash without commission fee being applied not only from ATMs of the Mortgage Bank (64 ATMs), Rietumu banka (14 ATMs), Latvijas Krājbanka (202 ATMs) and SEB banka (218 ATMs), but also Parex Bank's 138 ATMs located throughout Latvia. In the 1st quarter of 2009 the ATM network of Mortgage Bank and "friendly ATMs" constituted 636 ATMs or slightly more than a half of the ATM network of Latvia.

MORTGAGE AND LAND BANK OF LATVIA
THE SUPERVISORY COUNCIL AND BOARD OF DIRECTORS OF THE BANK

Supervisory Council (at 31 March 2009)

Baiba Bāne	Chairman of the Council
Dāvids Tauriņš	Deputy Chairman of the Council (appointed on 1 November 2008)
Jānis Šnore	Member of the Council
Matīss Markuss	Member of the Council (appointed on 1 November 2008)
Iveta Strautiņa	Member of the Council

Supervisory Council (at 16 April 2009)

Baiba Bāne	Chairman of the Council
Dāvids Tauriņš	Deputy Chairman of the Council (appointed on 1 November 2008)
Baiba Brigmane	Member of the Council

During the reporting period, the following Council members resigned: Ms. Iveta Strautiņa, Mr. Jānis Šnore and Mr. Matīss Markuss. Ms. Baiba Brigmane was appointed as Council members.

Board of Directors (at 31 March 2009)

Inesis Feiferis	Chairman of the Board
Rolands Paņko	Deputy Chairman of the Board
Jēkabs Krieviņš	Member of the Board
Andris Riekstiņš	Member of the Board
Jānis Bērziņš	Member of the Board

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

Management is responsible for preparing financial statements from the books of prime entry of the Group and the Bank for each financial period that present fairly the state of affairs of the Group and the Bank as at the end of the financial period and the results of their operations and cash flows for that period according to the International Financial Reporting Standards as adopted by the European Union..

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 for the period ended 31 March 2009. Management also confirms that applicable International Financial Reporting Standards as adopted in EU have been used in preparation of the financial statements and that these financial statements have been prepared on a going concern basis. Appropriate accounting policies have been applied on a consistent basis.

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

INCOME STATEMENT
(all amounts in thousands of Lats)

	3 months to 31 March 2009		3 months to 31 March 2008	
	Group	**Bank**	**Group**	**Bank**
Interest income	15,342	14,769	15,373	14,949
Interest expense	(9,541)	(9,264)	(10,529)	(10,402)
Net interest income	**5,801**	**5,505**	**4,844**	**4,547**
Fee and commission income	1,024	943	1,113	977
Fee and commission expense	(236)	(200)	(205)	(191)
Net fee and commission income	**788**	**743**	**908**	**786**
Dividend income	-	-	1	801
Net trading income	1,602	1,554	373	350
Other operating income	1,112	982	1,175	811
Staff costs	(2,572)	(2,303)	(2,413)	(2,188)
Administrative expenses	(1,995)	(1,694)	(2,027)	(1,782)
Depreciation and amortisation	(531)	(475)	(669)	(605)
Provision for impairment losses	(3,761)	(3,617)	(595)	(451)
Profit before income tax	**444**	**695**	**1,597**	**2,269**
Income tax expense	(211)	(184)	(276)	(248)
Net profit for the period	**233**	**511**	**1,321**	**2,021**
Attributable to:				
Equity holders of the Bank	-	-	-	-
Minority interest	-	-	-	-

BALANCE SHEET
(all amounts in thousands of Lats)

	31/03/09		31/12/08	
Assets	**Group**	**Bank**	**Group**	**Bank**
Cash and balances with Central Bank	17,651	17,651	45,115	45,115
Trading securities	2,225	2,060	3,859	3,711
Investment securities – held to maturity	65,374	65,270	64,070	63,969
Investment securities – available for sale	16,669	16,669	26,296	26,296
Due from credit institutions	145,418	145,286	65,587	65,334
Derivative financial instruments	1,430	1,430	1,581	1,581
Loans to customers	724,591	708,719	742,386	726,575
Investment properties	1,826	1,826	1,826	1,826
Investments in subsidiaries and associated undertakings	295	1,763	296	898
Intangible assets	2,382	1,887	2,434	1,942
Property and equipment	8,402	7,531	8,707	7,638
Current income tax assets	963	820	1,147	1,004
Other assets	4,879	689	5,000	1,456
Deferred expenses and accrued income	992	810	718	564
Total assets	**993,097**	**972,411**	**969,022**	**947,909**
Liabilities				
Due to credit institutions	503,393	484,250	515,228	495,927
Due to customers	307,861	307,919	302,098	302,209
Derivative financial instruments	1,398	1,398	546	546
Transit funds	2,306	2,306	2,276	2,276
Issued debt securities	40,368	40,368	40,660	40,660
Other liabilities	12,516	11,877	13,083	12,379
Deferred income and accrued expenses	2,790	2,068	2,610	1,882
Current income tax liabilities	-	-	-	-
Deferred tax liabilities	1,033	1,006	1,006	1,006
Subordinated liabilities	31,534	31,534	31,089	31,089
Total liabilities	**903,199**	**882,726**	**908,596**	**887,974**
Shareholder's equity				
Share capital	78,031	78,031	48,513	48,513
Reserve capital	2,524	2,063	2,524	2,063
Minority interest	29	-	29	-
Revaluation deficit on available for sale investments	(3,237)	(3,237)	(3,562)	(3,562)
Retained earnings	12,551	12,828	12,922	12,921
Total shareholder's equity	**89,898**	**89,685**	**60,426**	**59,935**
Total liabilities and shareholder's equity	**993,097**	**972,411**	**969,022**	**947,909**
Off balance sheet items				
Contingent liabilities	30,535	30,535	24,007	24,007
Financial commitments	35,369	48,818	29,746	39,399

CONSOLIDATED STATEMENT OF CHANGES IN THE GROUP'S EQUITY
(all amounts in thousands of Lats)

	Attributable to equity holders					
	Share Capital	**Reserve capital**	**Revaluation deficit on available for sale investments**	**Retained earnings**	**Minority interest**	**Total equity**
Balance as at 31 December 2008	**48,513**	**2,524**	**(3,562)**	**12,922**	**29**	**60,426**
Shares issued	29,518	-	-	-	-	**29,518**
Distribution of profit – payment for use of state capital	-	-	-	(604)	-	**(604)**
Net profit on available for sale investments	-	-	325	-	-	**325**
Profit for the period	-	-	-	233	-	**233**
Balance as at 31 March 2009	**78,031**	**2,524**	**(3,237)**	**12,551**	**29**	**89,898**

STATEMENT OF CHANGES IN THE BANK'S SHAREHOLDER'S EQUITY
(all amounts in thousands of Lats)

	Share Capital	**Reserve capital**	**Revaluation deficit on available for sale investments**	**Retained earnings**	**Total equity**
Balance as at 31 December 2008	**48,513**	**2,063**	**(3,562)**	**12,921**	**59,935**
Shares issued	- 29,518	-	-	-	**29,518**
Distribution of profit – payment for use of state capital	-	-	-	(604)	**(604)**
Net profit on available for sale investments	-	-	325	-	**325**
Profit for the period	-	-	-	511	**511**
Balance as at 31 March 2009	**78,031**	**2,063**	**(3,237)**	**12,828**	**89,685**

CASH FLOW STATEMENT
(all amounts in thousands of Lats)

	3 months to 31 March 2009	
	Group	**Bank**
Cash flows from operating activities		
Profit before taxation	444	695
Depreciation and amortisation	531	475
Increase in provision for impairment losses	2,627	2,546
(Profit) / loss from foreign exchange revaluation	-	-
Profit from sale of property and equipment	(70)	9
Increase in deferred income and accrued expenses	441	447
(Increase) / decrease in deferred expenses and accrued income	(274)	(246)
Increase in other assets	837	1,351
Increase / (decrease) in other liabilities	285	350
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**4,821**	**5,627**
Increase in balances due from credit institutions	4,013	4,013
Increase in loans to customers	15,443	15,765
Decrease in trading securities	1,634	1,651
Increase in balances due to credit institutions	(34,161)	(34,329)
Increase / (decrease) in balances due to customers	5,763	5,710
Decrease in transit funds	30	30
Increase / (decrease) in debt securities issued	(292)	(292)
Cash and cash equivalents generated from / (used in) operating activities	**(2,749)**	**(1,825)**
Corporate income tax paid	**-**	**-**
Cash flows from investing activities		
Increase in investment securities	7,943	7,947
Purchases of property and equipment	(381)	(324)
Proceeds from property and equipment disposal	277	2
Proceeds from investments in associated entities disposal	50	-
Acquisition of investments in associated entities	-	(865)
Cash and cash equivalents used in investing activities	**7,889**	**6,760**
Cash flows from financing activities		
Proceeds from subordinated debt	29,518	29,518
Dividend paid	(604)	(604)
Cash and cash equivalents generated from / (used in) financing activities	**28,914**	**28,914**
Increase / (decrease) in cash and cash equivalents	**34,054**	**33,849**
Cash and cash equivalents at the beginning of the period	57,456	57,529
Effect of exchange rates on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the period	**91,510**	**91,378**

GENERAL INFORMATION

The Mortgage and Land Bank of Latvia was established as a state-owned commercial bank on 19 March 1993 by the Government of Latvia based on the Decree No 140 adopted by the Cabinet of Ministers. The Bank was registered with the Register of Enterprises of the Republic of Latvia on 3 June 1993. According to the Commercial Law the Bank was registered in the Commercial Register on 14 July 2004.

The operations of the Bank are regulated by the law On Credit Institutions and other effective laws of the Republic of Latvia, the Statutes of the Bank, the instructions of the Bank of Latvia and Financial and Capital Market Commission, as well as the decrees and regulations of the Cabinet of Ministers of the Republic of Latvia. The Bank is under the jurisdiction of the Ministry of Finance of the Republic of Latvia that represents the interests of the shareholder on behalf of the Cabinet of Ministers and holds 100% of the Bank's shares.

RISK MANAGEMENT

The Group and the Bank manages all the major risks affecting the operation of the Group and the Bank in accordance with the Risk Management Policy approved by the Council of the Bank. The Risk Management Policy stipulates and describes the aggregate of measures used to ensure that a possibility of suffering losses is minimised in the event the invested or receivable resources would not be repaid or recovered in due time or full amount or the Group or the Bank would suffer other losses or would not derive the planned profit.
During the reporting period significant changes took place in the local and foreign financial markets therefore several risk management methods were implemented or improved in the Group and the Bank thus allowing to identify the risks more precisely and timely and to determine their impact on the future operations of the Group and the Bank . Majority of methods implemented relates to improvement of credit risk management, including the improvement of risk management with respect to individual client, groups of related clients and at the portfolio level. Development of risk management in the Group and the Bank in 2008 was also promoted by the Basel II requirements that determine the minimum capital requirements for all significant operational risks of the Group and the Bank as well as guidelines for their implementation.

The Group and the Bank abides by the following principles in its risk management:

- while assuming the risks the Group and the Bank shall be capable of implementing the aims and assignments defined in its development strategy in a longer run;
- the Group and the Bank shall operate by maintaining an optimum balance between profitability and safeguarding against the risks, i.e. the profitability must be as large as possible, however, the Group and the Bank shall not be exposed to the risks;
- risk assessment and management shall be an integral component of the every-day functions of the Group and the Bank;
- In accordance with their authority and competence the employees of the Group and the Bank shall know a customer and understand fully the nature of each transaction (operation) to be able to identify and assess the risks associated with the transaction (operation) and find the best solution both for the customer and the Group or the Bank;
- the Group and the Bank shall assess the probable losses that it might incur by assuming the risks and avoid extraordinary losses in its operation;
- the Group and the Bank shall identify and assess the probable risks before launching of new products or services or entering new markets;
- where necessary, the Group and the Bank shall reduce the risk limits, sell the assets subject to the risk or even leave the respective markets should these be assessed as excessively risky.

In managing the risks the Group and the Bank applies various methods for measuring the risks, sets the limits and maintains the appropriate controls. All risk policies are approved by the Council.

Credit Risk
The Group and the Bank is subject to the credit risk. The credit risk is the risk of the customer or co-operation partner not being able to or refusing to meet its liabilities towards the Group or the Bank in full amount and due time.
The Group and the Bank manages the credit risk according to the Credit Policy as well as internal regulations, procedures and instructions of credit operations.

RISK MANAGEMENT (continued)

The Credit Policy of the Bank describes and defines the principles for the management of the credit risk and it relates to all activities of the Group and the Bank involving credit risk – lending, financial market transactions (operations), intermediary activities on behalf of the clients and issue of guarantees to third parties.
The Bank's Risk Management Committee monitors the credit risk, including credit risk concentrations, and the quality of the credit portfolio, whereas central, regional and branch credit committees are taking decisions on the credit risk within the approved limits. The Bank's Risk Management Department is responsible for analysis of the credit risk concentration, setting and controlling the limits as well as the evaluation of the quality of the credit portfolio, whereas the Bank's Loan Department and Treasury Department is responsible for daily credit risk management in lending operations and operations with financial instruments respectively.
The Group and the Bank monitors the credit risk by assessing the creditworthiness and adequacy of collateral of the customer or counterparty on a regular basis as well as controls the credit risk at the level of customer, related customers and sectors of economy according to the risk limits set at the Group and the Bank. The Bank accepts a pledge of real estate, as well as business assets like buildings, stock and debtors as collateral.
During the reporting period the credit risk and required provisions level increased substantially and the Bank and Group continued to develop credit risk management policies. When providing for credit loss, the Bank and Group takes into consideration the following factors: paying capacity of the borrower, credit risk diminishing elements, such as collateral. The approach applied by the Bank and the Group implies that the Bank and the Group provides for credit loss in situations where neither the paying capacity, nor the collateral cover the borrower's liability or its part, which results in objective evidence for financial asset impairment.
The Bank and the Group maintains separate database for valuation of impaired financial assets in different dimensions such as split by geographical region, product type, industry etc. By collecting such data, the Bank and the Group ensures accumulation of information on losses incurred in different periods as well as develops its credit risk analysis and management policies. Since the historical data does not reflect the current level of credit risk, the Bank and the Group adjusts the data in accordance with Bank's and Group's expert assessment and statistical analysis. The Bank and the Group carries out stress tests and scenario analysis for different macroeconomic factor changes such as real estate price decrease, reduction in population income levels, potential changes in different industries etc..
The Group and the Bank manages credit risk concentrations according to the Risk Exposures Controlling Policy that stipulates the methods of analysis of the credit risk concentrations and its controlling instruments including limits on credit risk concentrations. Credit risk concentrations is managed by measuring and setting limits on the following concentrations:

- ratio of large exposure concentration and own funds (internal limit - 400%, limit set by the Law on Credit Institutions – 800%), as of 31.03.2009. was 32.3% (as of 31.12.2008.-78.6%);
- ratio of single client's (related clients' group) large exposure and own funds, which can not exceed 25%, as of 31.03.2009. was 21.9% (as of 31.12.2008.-22.1%);
- ratio of risk exposures with persons related to the Bank and own funds, which can not exceed 15%, as of 31.03.2009. was 2.0% (as of 31.12.2008.-3.8%).
- proportion of risk concentration in single economic sector in the Bank's credit portfolio and own funds as of 31.03.2009. was 94.7% (as of 31.12.200.-172.6%);

Since the Bank's strategy is not focused on servicing the non-residents business, the proportion of the Bank's total claims to non-residents was small and as of 31.03.2009. was 10.8% (as 31.12.2008.–8.9%) of the Bank's total assets. The Group and the Bank manages the country risk that results from the lending operations to non-residents according to the Country Risk Management Policy.

Liquidity Risk

The liquidity risk relates to the ability of the Group and the Bank to redeem the legally valid claims of its customers and other creditors in due time and secure that the increase of the anticipated claims presents reasonable costs. The Liquidity Risk Management Policy of the Bank stipulates the principles for management of liquidity risk. The Bank shall ensure that the liquid assets are not less than 30% (set by the FCMC) of its short-term liabilities at all times. The Assets and Liabilities Committee of the Bank stipulates the guidelines for liquidity risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the liquidity risk. To evaluate the liquidity risk, the Bank uses the GAP method. The Bank has set liquidity net position limit in each significant currency and total liquidity net position limit as well as maximum deposit amount from a single depositor to control the liquidity risk. Liquidity ratio (min – 30%) as of 31.03.2009. 76.7% (as of 31.12.2008.-60.4%).

RISK MANAGEMENT (continued)

Foreign Currency Risk

The foreign currency risk occurs due to the differences between the asset and liability positions of foreign currencies that, as a result of the fluctuations of the exchange rates, affect the cash flow and financial results of the Group and the Bank. The Currency Risk Management Policy of the Bank stipulates the principles for the management of the foreign currency risk.

The Group and the Bank controls the foreign currency risk by imposing limits on the open currency positions for each currency and all currencies together consolidating in lats and by complying with the open currency position limits established in the law On Credit Institutions.

The Assets and Liabilities Committee of the Bank stipulates the guidelines for foreign currency risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the foreign currency risk.

Interest Rate Risk

The interest rate risk is related to the influence of the fluctuations of the market rates onto the interest income and expenses of the Group and the Bank. To assess the interest rate risk the Bank analyses the maturity structure of the assets and liabilities sensitive to the changes in interest rates and susceptibility of the maturity structure to the potential fluctuations of the interest rates on a regular basis.

The Assets and Liabilities Management Committee monitors the interest rate risk, whereas the Treasury Department is responsible for the daily management of the interest rate risk. The Bank has set limit on changes in economic value of the Bank at 10% of own funds and limit on changes in net interest income at 2% of own funds which as of 31.03.2009. were 7.8% (as of 31.12.2008.-9.8%) and 0.7% (as of 31.12.2008.-0.3%) respectively.

Operational risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group and the Bank, for example human mistake or fraud, disturbances in the operation of the information systems, insufficient control procedures or their ignorance. The Group and the Bank manages operational risk according to the Operational Risk Management Policy. The Internal Control System provides for management and control of the operational risk in the Group and the Bank. The Group and the Bank uses self-assessment method to measure the operational risk, whereas the Bank's operational risk information system is used to identify, analyse and control the operational risk. The structural units of the Group and the Bank are responsible for the management of the operational risk in the daily operations, but the Risk Management Committee monitor the operational risk. The Risk Management Department is responsible for the implementation of operational risk management in the Group and the Bank.

The Bank has implemented Business continuity plan that includes guidelines on actions to be taken by the Bank, its structural units and employees at occurrence of risks that can have substantial negative effect on the Bank's operations.

Capital Adequacy

Capital adequacy shows those capital resources of the Group and the Bank needed to cover the credit and market risks arising from asset-side and off-balance sheet positions.

As of 1 January 2008 new European Union capital adequacy calculation regulations (Basel II) came into force. The Group and the Bank uses the standardised approach to calculate minimum capital charge for credit and market risks and basic indicator approach – for operational risk. As at 31 March 2009 the capital adequacy ratio of the Bank calculated according to the regulations of the Financial and Capital Market Commission were 12.3% (as of 31.12.2008.-9.6%) which exceeded the minimum of 8%.

The Group and the Bank has carried out also internal capital adequacy evaluation where in addition capital requirements for those significant risks with respect to which no minimum capital requirements have been determined by the regulation have been taken into account. Internal capital adequacy evaluation results as at 31 March 2009 were as follows:

	31/03/09 **Bank**
Capital base for internal capital adequacy evaluation	113,265
Internal capital requirement	84,742
Internal capital adequacy ratio	10.7%
Surplus of capital base	28,523

THE PERFORMANCE RATIOS OF THE BANK

Items	Accounting period	Previous accounting year
Return on equity (ROE) (%)	2.20%	1.93%
Return on assets (ROA) (%)	0.21%	0.14%

CONSOLIDATION GROUP

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 –Latvija 40003426895	CKS	100	100	MS
2.	SIA „Hipolīzings”	LV – Latvija 40003616329	CFI	100	100	MS
3.	SIA „Risku investīciju sabiedrība”	LV – Latvija 40003952445	CFI	100	100	MS
4.	IPS „Hipo fondi”	LV – Latvija 40003403040	IPS	83	83	MS
5.	SIA „Rīgas Centra namu pārvalde”	LV – Latvija 40003266805	CKS	100	100	MS
6.	KS "Mazo un vidējo komersantu atbalsta fonds"	LV – Latvija 40003681329	CFI	47.62	47.62	KS

* IPS – investment management company, CFI – other financial institution, CKS – other commercial company.
** MS – subsidiary; KS – joint venture.

RATINGS ASSIGNED TO BANK BY RATING AGENCY MOODY`S INVESTORS SERVICE

Rating type	Ratings	Rating Approval date	Previous rating
For long-term foreign currency bank deposits	**Baa3**	23.04.2009.	**Baa1**
For short-term foreign currency deposits	**P3**	23.04.2009.	**P2**
The financial strength rating	**D-**	23.04.2009.	**D-**
The rating of mortgage bonds issued	**Baa2**	23.04.2009.	**A2**

Moody`s Investors Service reports of the Bank may be found at: *www.hipo.lv*
Additional information on the ratings assigned (incl. Legend of ratings) may be found at: *www.moodys.com*

These condensed financial reports are to be viewed along with the Bank’s Annual Report for 2008.

Inesis Feiferis
Chairman of the Board

Uvis Zemītis
Chief Accountant