

**AS "Latvijas Krājbanka"**  
**Report**  
**for 3 months of 2008**

**(unaudited)**

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## Statement of the Management

AS „Latvijas Krājbanka (hereinafter Latvijas Krājbanka or Krājbanka) successfully passed the first quarter of 2008, not only increasing financial results, but also by introducing new products to the market. In 2008, Latvijas Krājbanka continued to support Latvia's cultural, arts, and education sectors.

### Financial data

On March 31<sup>st</sup> 2008 the non-audited profit of Krājbanka Group reached LVLV 977 thousand after-tax, which is LVL 281 thousand or 40% more than as for March 31<sup>st</sup> 2007. The total amount of the Group's assets on March 31<sup>st</sup> 2008 reached LVL 514 million, which in comparison with the beginning of 2008 diminished by LVL 157.5 million. Those ratios were influenced by seasonal activity and business type of separate clients. At the same time starting with the second half of January 2008 the assets showed growth. If we compare it with the end of January, then the asset growth by the end of quarter comprised 3.4%.

The diminishing of assets/liabilities during the accounting period was influenced by the reduction of deposit balances of separate clients. In total in first 3 months of 2008 the deposit amount diminished by LV 151.8 million or 25.9%, reaching the balance of LVL 434.8 million. It should be noted that during the first 3 months of 2008 Krājbanka`s private person`s deposit amount increased by LVL 14.5 million.

The corresponding diminishing of short-term balances due from credit institutions compensated the considerable deposit decrease in the assets part of the bank's balance sheet. At the same time the bank's net credit portfolio increase in first 3 months of 2008 comprised LVL 14.1 million or 4.7%, at the end of period reaching LVL 312.3 million.

The Krājbanka Group's profit increase during 3 months of 2008 was promoted by the net interest income growth by LVL 1.03 million or by 37.2% (towards 3 months of 2007), increase of the profit of sale of financial instruments by LVL 1.05 million or 3X, and the commission and fee net income growth by LVL 78 thousand or for 5.0%.

Despite the rugged competition existing in the sector of Latvian commercial banks, Krājbanka retains stable market positions. During the first 3 month of 2008 Krājbanka`s private person`s deposit amount increase was the 2<sup>nd</sup> highest in the sector, which shows the high level of clients` loyalty towards the bank.

### Major activities and decisions

Latvijas Krājbanka Shareholders' Meeting decided to pay in dividends a half or 2.6 million lats from the audited profit of 2007, directing the second half towards business development.

In January Latvijas Krājbanka calculated and paid-out interest on CA series mortgage bonds. The interest income per one CA series mortgage bond for the period from 31 July 2007 to 31 January 2008 (excluding) is EUR 2.6875 (two euro and 68.75 eurocents).

Latvijas Krājbanka consistently proceeds with implementation of the policy, which aim is to make the bank's services available and convenient at most to every resident.

On March 31<sup>st</sup> 2008 Latvijas Krājbanka had 114 Client service centres throughout Latvia, 35 of which were the mini banks. By the client service centre number Latvijas Krājbanka ranks the first place among Latvian commercial banks. Since the beginning of 2008 Latvijas Krājbanka has opened a new Client service centre in resort town Jurmala, as well as the mini banks in Liepaja, Alsunga, Bene, Livani, Ape and Kadaga. At the end of the first quarter the number of Latvijas Krājbanka ATMs was 184, thus ranking the 3<sup>rd</sup> place on the market among Latvian commercial banks.

For the next three years the president of Latvijas Krājbanka will continue working at the Council of the Association of Commercial Banks of Latvia (ACBL). ACBL is uniting on voluntary principle the

banks registered in Latvia and branches of foreign banks. The Associations purpose is to contribute to strengthening and development of the banking system of Latvia.

In March, Dmitrijs Kocjuba was elected into the Latvijas Krājbanka Supervisory Council, where he replaced Dmitrijs Jakovļevs. At the moment of election D. Kocjuba acted as Chairman of the Board and as Head of the Strategic Planning and Development Departments of open company "Grankombank.

### **Major news in Bank's products and services**

During the first quarter of 2008 International rating agency "Standard & Poor's" raised the long-term credit rating of AS "Latvijas Krājbanka" from B to B+. The short-term credit rating has been repeatedly affirmed at the level of B. The outlook was defined stable. As the positive factors "Standard & Poor's" means strong client service centre network, recognizable trademark and high liquidity.

In its report *Standard & Poor's* informs that rating upgrade reflects ongoing and potential support to AS "Latvijas Krājbanka" it could receive from its main shareholder - the Lithuanian *Bank AB Bankas "Snoras"*.

The international rating agency „Fitch Ratings” has also revised the ratings for Latvijas Krājbanka: Long-term Foreign Currency Rating (IDR) – "B" and Individual Rating – "D/E". The remaining ratings affirmed by "Fitch Ratings" were affirmed at the previous level: Short-term Foreign Currency Ratings - "B" and Support Rating – "4". The prognosis for the Long-term Foreign Currency Rating remained Stable.

During the first quarter 2<sup>nd</sup> pension tiers managed by the subsidiary company of Latvijas Krājbanka – AS "Ieguldījumu pārvaldes sabiedrība "Astra Krājfondi" (hereinafter "Astra Krājfondi") showed the best results among pension administrators in Latvia. "Astra Krājfondi" is the only 2<sup>nd</sup> pension tier manager in Latvia, which have provided positive profitability in all the segments (conservative, balanced and active) since the beginning of this year.

The number of clients of the pension plan of Latvijas Krājbanka Group company "Astra Krājfondi" at the end of December was over 65559, but the total state-funded level 2<sup>nd</sup> pension tier assets managed by the Krājbanka company comprised 13.2 million lats. "Astra Krājfondi" takes the 4th place in Latvia according to the number of participants of the 2nd pension tier. At the end of the quarter, the total assets managed by "Astra Krājfondi", including investment funds and level 3 pension assets, amounted to 14.5 million LVL.

Latvijas Krājbanka continued working on the improving of the Online bank functionality, in order to make this product more convenient for the bank's clients. Since February the clients of Latvijas Krājbanka can quickly and easy complete the application for the choice or change of the administrator and investment plan of the state funded pension capital funds in the Online bank, using the appropriate manager of the 2<sup>nd</sup> pension tier funds and the pension plan.

SIA "LKB Līzings", a subsidiary company of Latvijas Krājbanka, continues to sell actively leasing products; currently, leasing services are available not only at J. Daliņa Street 15, but also in all Latvijas Krājbanka client service centres. Financial and operative leasing are available at more than 100 locations throughout Latvia. By the end of the first quarter, the leasing portfolio grew by 34% in comparison to December 2007 and reached 14,517,174 LVL.

Latvijas Krājbanka has also organized several campaigns within clients` loyalty programme. When shopping with Krājbanka payment card every client could participate in the campaign "Luck out of blue" and win precious prizes. When using Western Union money transfers at any client services centres of Latvijas Krājbanka, it was possible to win the travel gift certificate in the amount of 3 000 LVL.

## Public activities

The Bank's development is acknowledged by different sociological polls, at which Latvijas Krājbanka ranks high positions. According to international market research company "GfK Custom Research", Latvian residents consider the AS "Latvijas Krājbanka" to be the second most popular bank in Latvia. More than 10% of all Latvian residents consider the AS "Latvijas Krājbanka" their main bank.

Latvijas Krājbanka continues its strategic contribution to Latvian Musical and Cultural Life. In 2008 the bank also supports various significant cultural events and accentuates the availability of truly great artistic processes and development of cultural processes not only in the capital of Latvia, but also in its regions.

The XXIV Nationwide Latvian Song and XIV Dance Festival, the general sponsor of which is Latvijas Krājbanka, can be considered the most significant cultural life events in Latvia. During the first quarter, ID cards for Song and Dance Festival participants were prepared, which also function as a debit card. Latvijas Krājbanka employees performed complicated and time-consuming work in order to gather information on the Song and Dance Festival participants and to inform them of the ID cards.

This year Latvijas Krājbanka supports the International Piano Star Festival in Liepāja by taking part in financing of festival process and by establishing the prize of Latvijas Krājbanka. The first established prize were presented to Liepāja Symphony Orchestra and to its chief conductor Imants Resnis at the closing concert of International piano Stars Festival on March 16 in Liepāja Theatre. For many years, Latvijas Krājbanka has supported one of the largest events in Latvia's musical life, the 2007 Latvian Music Record Awards ceremony. The Latvian Music Record Awards is an expressive form of contemporary art, competition and business that has already taken place 12 times.

Latvijas Krājbanka President Mārtiņš Bondars took part in the project "Iespējamā misija" (Mission Possible), in which students from 11<sup>th</sup> grade of Liepāja City 5<sup>th</sup> Secondary School were taught economics. Almost 50 Latvian business leaders from all kinds of fields expressed their support for the "Iespējamā misija" programme, and visited several schools throughout Latvia to become teachers for an hour and give a lecture on a subject relevant to their professions.

In the first quarter of 2008, Latvijas Krājbanka continued with educational development, by organising a youth scholarship competition, "Aeroplāns". The goal of the competition is to spark youth interest in economic and financial issues, as well as to support the chance for secondary school students to realise their future plans: one competition participant from each of Latvia's regions can win a scholarship for their first year of studies.

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Dzintars Pelcbergs  
First Deputy Chairman of the Board/  
First Vice President

Rīga,  
30 may 2008

## Supervisory Council and Management Board of the Bank

### Supervisory Council as at 31 March 2008:

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment/ Reappointment</i>
Raimondas Baranauskas	Chairman of the Council	28/10/2005 / 19/03/2008 28/10/2005 /
Aleksandrs Antonovs	Deputy Chairman of the Council	19/03/2008 23/03/2007/
Michael Duncan Chartres	Member of the Council	19.03.2008
Dmitrijs Kocjuba	Member of the Council	19/03/2008 28/10/2005 /
Naglis Stancikas	Member of the Council	19/03/2008 28/10/2005 /
Oļegs Suhorukovs	Member of the Council	19/03/2008 23/03/2007/
Žoržas Šarafanovičius	Member of the Council	19/03/2008

On the ordinary shareholders` meeting of the AS "Latvijas Krājbanka", held on March 19th 2008, the changes were made to the composition of the Council of AS "Latvijas Krājbanka". New AS "Latvijas Krājbanka" Council shall be elected for three years. Dmitrijs Jakovļevs was not repeatedly elected in the position of Council member of AS "Latvijas Krājbanka".

### Management Board as at 31 March 2008:

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment/ Reappointment</i>
Mārtiņš Bondars	Chairman of the Board/ President	03/07/2006
Dzintars Pelcbergs	First Deputy Chairman of the Board/ First Vice President	02/01/2006
Svetlana Ovčiņņikova	Member of the Board	19/06/2006
Andrejs Surmačs	Member of the Board	28/10/2005
Ilze Bagatska	Member of the Board	18/07/2007
Ivars Priedītis	Member of the Board	18/07/2007

There have been no changes in the composition of Management Board from 1 January 2008 till the publication of this report.

## Consolidated entities

31 March 2008

No.	Name of entity, Registration No.	Code of place of registration, registry address	Type of entity's activity*	Interest in share capital (%)	Interest in share capital (%)	Ground for inclusion in the group**
1.	AS "Ieguldījumu pārvaldes sabiedrība "Astra Krājfondi" 40003605043	LV, Riga, J.Daliņa street 15	ISA	100	100	MS
2.	AS "Ieguldījumu pārvaldes sabiedrība "LKB Asset Management" 40003818124	LV, Riga, J.Daliņa street 15	ISA	100	100	MS
3.	SIA "Krājinvestīcijas", 40003687374	LV, Riga, Jēkaba street 2	CKS	100	100	MS
4.	SIA "LKB līzings", 40003887450	LV, Riga, Jēkaba street 2	CFI	100	100	MS
5.	AS "Pirmais atklātais pensiju fonds", 40003377918	LV, Riga, J.Daliņa street 15	PFO	100	100	MS

\* BNK -bank, APS - insurance body, ISA - investment company, PFO - pension capital fund, CFI – other financial institution, FPS - financial management institution, CKS - other entity.

\*\*MS - associated company, KS - cooperative society, MAS - parent company.

**Profit and loss statement**  
**31 March 2008**

<b>LVL '000</b>	<b>Group</b> <b>31.03.2008</b> <b>(unaudited)</b>	<b>Group</b> <b>31.03.2007</b> <b>(unaudited)</b>	<b>Bank</b> <b>31.03.2008</b> <b>(unaudited)</b>	<b>Bank</b> <b>31.03.2007</b> <b>(unaudited)</b>
Interest income	8,706	5,603	8,667	5,627
Interest expense	(4,893)	(2,824)	(4,900)	(2,827)
<b>Net interest income</b>	<b>3,813</b>	<b>2,779</b>	<b>3,767</b>	<b>2,800</b>
Commission and fee income	2,195	2,006	2,121	1,991
Commission and fee expense	(552)	(441)	(550)	(440)
<b>Net commission and fee income</b>	<b>1,643</b>	<b>1,565</b>	<b>1,571</b>	<b>1,551</b>
Profit on sale of securities and foreign exchange trading	1,388	339	1,390	339
Other operating income	428	223	409	222
<b>Operating income</b>	<b>7,272</b>	<b>4,906</b>	<b>7,137</b>	<b>4,912</b>
Personnel expense	(2,794)	(2,028)	(2,712)	(1,988)
Depreciation and amortisation expense	(512)	(445)	(512)	(445)
Other operating expenses	(2,077)	(1,391)	(2,020)	(1,369)
<b>Total operating expenses</b>	<b>(5,383)</b>	<b>(3,864)</b>	<b>(5,244)</b>	<b>(3,802)</b>
Impairment losses	(830)	(382)	(830)	(382)
Reversal of impairment losses	154	164	154	164
<b>Profit before corporate income tax</b>	<b>1,213</b>	<b>824</b>	<b>1,217</b>	<b>892</b>
Corporate income tax	(236)	(128)	(235)	(128)
<b>Profit for the reporting period</b>	<b>977</b>	<b>696</b>	<b>982</b>	<b>764</b>
<b>Earnings per share (in lats per share)</b>	<b>0.080</b>	<b>0.076</b>	<b>0.081</b>	<b>0.084</b>



## Balance sheets

### 31 March 2008

LVL '000	Grupa	Grupa	Banka	Banka
	31.03.2008 (unaudited)	31.12.2007 (audited)	31.03.2008 (unaudited)	31.12.2007 (audited)
<b>Assets</b>				
Cash and deposits with the central bank	51,969	48,151	51,969	48,151
Balances due from credit institutions and the central bank	91,655	275,008	91,655	275,008
Loans and advances to customers	311,715	297,681	312,344	298,247
Financial assets at fair value through profit or loss	20,567	21,985	20,567	21,985
Held-to-maturity investments	8,242	4,747	8,242	4,747
Investment in subsidiaries	-	-	640	640
Intangible assets	1,270	1,200	1,115	1,067
Fixed assets	19,444	19,461	19,121	19,127
Prepayments and accrued income	625	648	596	626
Other assets	8,374	2,462	7,987	2,220
<b>Total assets</b>	<b>513,861</b>	<b>671,343</b>	<b>514,236</b>	<b>671,818</b>
<b>Liabilities</b>				
Balances due to the central bank and credit institutions	15,400	26,668	15,400	26,668
Deposits from the customers	434,312	586,129	434,759	586,571
Issued debt instrument	3,546	3,593	3,546	3,593
Derivative liabilities	552	456	552	456
Deferred income and accrued expenses	1,516	1,815	1,486	1,767
Deferred tax liability	944	848	944	848
Corporate income tax liability	213	962	206	955
Other liabilities	9,438	949	9,143	782
Subordinated debt	8,506	8,913	8,506	8,913
<b>Total liabilities</b>	<b>474,427</b>	<b>630,333</b>	<b>474,542</b>	<b>630,553</b>
<b>Shareholders' equity</b>				
Paid-in share capital	12,149	12,149	12,149	12,149
Share premium	12,300	12,300	12,300	12,300
Reserve capital and other reserves	626	626	626	626
Revaluation reserve	5,352	5,352	5,352	5,352
Retained earnings	9,007	10,583	9,267	10,838
Total issued capital and reserves attributable to equity holders	<b>39,434</b>	<b>41,010</b>	<b>39,694</b>	<b>41,265</b>
<b>Total shareholders' equity</b>	<b>39,434</b>	<b>41,010</b>	<b>39,694</b>	<b>41,265</b>
<b>Total liabilities and shareholders' equity</b>	<b>513,861</b>	<b>671,343</b>	<b>514,236</b>	<b>671,818</b>
<b>Off-balance items</b>				
Contingent liabilities	<b>1,862</b>	<b>28,267</b>	<b>1,862</b>	<b>28,267</b>
Commitments	<b>20,553</b>	<b>25,200</b>	<b>22,123</b>	<b>25,444</b>

## Cash flow statement

LVL '000	Group 31.03.2008 (unaudited)	Group 31.03.2007 (unaudited)	Bank 31.03.2008 (unaudited)	Bank 31.03.2007 (unaudited)
<b>Operating activities</b>				
Result before corporate income tax	1,213	824	1,217	892
Depreciation and amortisation	512	445	512	445
(Decrease)/ increase in provisions for liabilities and charges	(3)	959	(2)	945
Loss / (gain) on revaluation of foreign currency	288	291	288	291
(Gain)/ loss on revaluation of investments	(27)	(183)	(27)	(134)
Loss / (gain) from disposal of fixed assets, net	13	9	13	9
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>	<b>1,996</b>	<b>2,345</b>	<b>2,001</b>	<b>2,448</b>
(Decrease) in deferred income and accrued expenses	(299)	(990)	(281)	(989)
(Increase) in prepayments and accrued income	23	(91)	30	(91)
Net (increase)/ decrease in derivative instruments	(824)	(352)	(824)	(352)
Decrease in other assets	(6,577)	(8,671)	(6,432)	(8,684)
(Decrease) in other liabilities	8,489	3,959	8,361	3,969
(Decrease) in financial assets fair value though profit or loss	2,365	(16,607)	2,365	(16,565)
Increase in financial assets held to maturity	(3,495)	(8)	(3,495)	(50)
Increase in financial assets trading	-	(890)	-	(939)
(Increase) in balances due from the central bank and credit institutions	10,610	(194)	10,610	(194)
(Increase) in loans and advances to non-banking customers	(14,034)	(7,583)	(14,097)	(7,568)
Increase in deposits from the public	(151,817)	27,598	(151,812)	27,649
<b>Net increase in cash and cash equivalents from operating activities</b>	<b>(153,563)</b>	<b>(1,484)</b>	<b>(153,574)</b>	<b>(1,366)</b>
Paid income tax	(222)	(331)	(222)	(331)
<b>Net increase in cash and cash equivalents</b>	<b>(153,785)</b>	<b>(1,815)</b>	<b>(153,796)</b>	<b>(1,697)</b>
<b>Cash inflow/ outflow from investing activities</b>				
(Purchase) of fixed and intangible assets	(579)	(1,912)	(568)	(1,910)
Proceeds from disposal of fixed and intangible assets	1	379	1	379
Investment in associate and subsidiary, net	-	-	-	(120)
<b>Increase in cash and cash equivalents from investing activities</b>	<b>(578)</b>	<b>(1,533)</b>	<b>(567)</b>	<b>(1,651)</b>
<b>Cash inflow from financing activities</b>				
Issue of shares	-	2,820	-	2,820
Issue of debt instrument	-	3,543	-	3,543
Issue of subordinated debt	-	-	-	-
Dividends paid	(2,553)	-	(2,553)	-
<b>Increase in cash and cash equivalents from financing activities</b>	<b>(2,553)</b>	<b>6,363</b>	<b>(2,553)</b>	<b>6,363</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(156,916)</b>	<b>3,015</b>	<b>(156,916)</b>	<b>3,015</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>282,564</b>	<b>118,048</b>	<b>282,564</b>	<b>118,048</b>
Profit/(loss) from revaluation of foreign currency positions	(741)	(351)	(741)	(351)
<b>Cash and cash equivalents at the end of the period</b>	<b>124,907</b>	<b>120,712</b>	<b>124,907</b>	<b>120,712</b>

## Statement of changes in shareholder's equity

Group LVL '000	Paid – in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total shareholders' equity and minority interest
<b>Balance as at 31 December 2006</b>	<b>9,106</b>	<b>1,323</b>	<b>626</b>	<b>2,839</b>	<b>7,611</b>	<b>21,505</b>
Change in deferred tax related to revaluation reserve	-	-	-	(136)	-	(136)
Revaluation charged	-	-	-	2,649	-	2,649
Total income and expense for the year recognised directly in equity	-	-	-	2,513	-	2,513
Profit for the year	-	-	-	-	4,954	4,954
<b>Total income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,513</b>	<b>4,954</b>	<b>7,467</b>
Dividends paid	-	-	-	-	(1,982)	(1,982)
Issue of shares	3,043	10,977	-	-	-	14,020
<b>Balance as at 31 December 2007</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>5,352</b>	<b>10,583</b>	<b>41,010</b>
Dividends paid	-	-	-	-	(2,553)	(2,553)
Profit for the period	-	-	-	-	977	977
<b>Balance as at 31 March 2008</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>5,352</b>	<b>9,007</b>	<b>39,434</b>

Bank LVL '000	Paid – in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings attributed to the shareholders' of the Bank	Total shareholders' equity
<b>Balance as at 31 December 2006</b>	<b>9,106</b>	<b>1,323</b>	<b>626</b>	<b>2,839</b>	<b>7,670</b>	<b>21,564</b>
Change in deferred tax related to revaluation reserve	-	-	-	(136)	-	(136)
Revaluation charged	-	-	-	2,649	-	2,649
Total income and expense for the year recognised directly in equity	-	-	-	2,513	-	2,513
Profit for the year	-	-	-	-	5,150	5,150
<b>Total income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,513</b>	<b>5,150</b>	<b>7,663</b>
Dividends paid	-	-	-	-	(1,982)	(1,982)
Issue of shares	3,043	10,977	-	-	-	14,020
<b>Balance as at 31 December 2007</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>5,352</b>	<b>10,838</b>	<b>41,265</b>
Dividends paid	-	-	-	-	(2,553)	(2,553)
Profit for the period	-	-	-	-	982	982
<b>Balance as at 31 March 2008</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>5,352</b>	<b>9,267</b>	<b>39,694</b>

## Operational results

31 March 2008

Name of the Item	Reporting period (unaudited)	Previous reporting year (audited, adjusted)
Return on equity (ROE) (%)	9,54	20,11
Return on assets (ROA) (%)	0,72	1,05

## Shareholders and Equity

On 31 March 2008, the Bank's registered and paid-in capital comprised LVL 12,149 thousand lats (in 31.03.2007: LVL 9,909 thousand). The stock capital consists of 12,149,246 shares, including 12,146,412 ordinary bearer shares and 2,834 "A" category preference bearer shares. Nominal value of one share is 1 (one) lat. All shares of AS "Latvijas Krājbanka" are listed on the Baltic Second List of the AS "Rīgas Fondu Birža". There are no limitations for transfer of the Bank's shares. There have been no essential changes in the composition in shareholders from 1 January 2008 till the publication of this report.

## Summary of significant accounting policies

The interim consolidated financial statements for the three month period ended 31 March 2008 have been prepared in accordance to the IAS 34 Interim Financial Statements.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

## The Development Strategy Prospectives for the 2008-2010

### Bank's mission

The JSC Latvijas Krājbanka has been and remains the universal network commercial bank providing the vast range of services to the Latvian private individuals and legal entities. Using international contacts, experience of the the SNORAS financial group and the privileges of Latvia as the future world finance centre it will develop its high-quality services to the non-residents.

In accordance with the Bank's mission the general prospective of the strategic development will be maintained for the next three years.

### The general strategic prospectives of the Bank

1. Increasing of the capital and improving the capitalization indicator;
  - 1.1. The Bank's capital increased by more than 2,5 times, amounting at least 50 million lats in the end of 2008 (*TACTICS – emitting additional shares, distributed among the shareholders and on undivided earnings account*)
2. Organization structure and personnel policy;
  - 2.1. Decentralization of the decision making to the heads of the Bank's departments and increasing the responsibility,
  - 2.2. Personnel policy,
    - 2.2.1. Development of the loyalty and motivation system,
    - 2.2.2. Regular increase of the earnings corresponding to the trade, emphasizing the link between the increase of the variable part of the earnings and the work quality and results,
    - 2.2.3. The amount of human resources in the department network will be defined by the KSC efficiency indexes and the network development concept,
    - 2.2.4. Bank's motivation programs without monetary motivating instruments will preserve and non-monetary motivation instruments will be developed, paying direct attention to the middle term and long-term motivation schemes (life insurance, half year and annual salaries, including savings).
3. Development of the management IT system;  
Detailing and automation of the process of accounting budgeting and administrative operations (selection and implementation of the system of accounting administrative operations),
4. Development of Resource Base and crediting:
  - 4.1 Resource attraction tools,
    - 4.1.1 by optimization and extension of the Bank's network in Latvia,
    - 4.1.2 by activation of corporate client attraction, including increase of business crediting amounts,
    - 4.1.3 by activating collaboration with international financial institutions in funding attraction.
5. Other product development:
  - 5.1 network product development,
  - 5.2 Individual product development, appropriate for VIP and individual service,
  - 5.3 development of product package cross selling product groups,
  - 5.4 Product or product group pricing policy (antidumping policy), profitable for the Bank.
6. Client policy:

- 6.1. Target markets,
    - 6.1.1. Latvia,
    - 6.1.2. Baltic states,
    - 6.1.3. EU and in collaboration with financial group also Russia (applying precaution policy and the best usage policy of imposed KYC and AML experience),
  - 6.2. Target client,
    - 6.2.1. Latvian residents,
      - 6.2.1.1. individuals,
      - 6.2.1.2. legal entities,
        - 6.2.1.2.1. small and medium enterprises,
        - 6.2.1.2.2. using crediting possibilities of the financial group also big enterprises,
    - 6.2.2. Baltic and EU individuals and legal entities,
- 7. The Bank's network and sale channels:
    - 7.1. optimization of existing CSC network, using Minibank possibilities in less active places,
    - 7.2. the network expansion in Latvia, using the Minibank development project,
    - 7.3. EPS channel and tool development.
  - 8. The Bank's image development -
    - 8.1. The Bank's brand update,
    - 8.2. The Bank's network division` visual image update,
    - 8.3. Participation in social life and charity (image development on the state and regional scale) -
      - 8.3.1. direct charity,
      - 8.3.2. participation in events – acknowledgement of the Bank's social activity.

## **Risk management**

The Bank has developed a system for identification, supervision and management of its main financial risks. The Asset and Liabilities Committee perform supervision and management of this system. The following documents are established within the risk management system and approved by the Council:

- Risk management policy
- Investments policy
- Credit policy
- Information security policy
- Other documents, regulating risk management.

### **Credit risk**

The Bank is exposed to credit risk while performing trading, lending and investment activities, as well as in transactions where the Bank acts as intermediary in the name of clients or issues guarantees to third parties. Credit risk is managed within the Bank's risk management procedures.

The risk, which can arise in the case if the Bank's partners, with whom the Bank has concluded derivative and other financial instrument contracts, default on their obligations, is managed by applying the derivative financial instrument credit risk monitored by the procedure regulating those processes. To manage credit risk of derivative instruments the Bank deals with counterparties of good credit standing. The Bank's credit policy defines requirements for the credit risk collateral.

The Bank is subjected to the credit risk, mainly, in the result of credit activity. The credit risk amount is reflected in the asset balance value. The Bank is subjected to the credit risk also regarding other Bank's products, including derivative instruments and investments into debt securities. The amount, to which the Bank is subjected to the credit risk regarding those products, is reflected in their residual value balance. Hereto the Bank is subjected to the off-balance credit risks, which arise from the liability to issue additional credits and from the issued guarantees.

Bank manages the credit risk by setting the limits to the risk transaction amount for the Borrower, for the Group of borrowers, for the branch of national economy and for the country. The Credit policy determines the credit risk restrictive factors – types of collateral, defines the key principles for evaluation and adequacy of collateral, states the maximum period of use for the credit products, as well as the procedure of loan granting, processing, and control. The Board approves the factors restricting credit risk at least once a year.

The Bank is mainly involved into loan granting to the clients residents – individuals, and to the small and medium enterprises.

### **Liquidity risk**

The Bank maintains liquidity management with an aim to ensure the permanent resource availability for the timely fulfillment of all money flow liabilities. The Bank's liquidity policy is a part of the Risk management policy.

The liquidity risk is subjected to the main funding of the Bank's activities and the position management. It includes both the risk of being unable to invest into assets at appropriate term and amount, and the risk of being unable to realize assets at reasonable price and in an appropriate frame of time

The funds are attracted using deposits, subordinated liabilities and stock capital. The Bank strives to maintain a balance between continuity and flexibility of funding, using payout periods of different liabilities. The Bank continuously evaluates liquidity risks by determining and controlling changes in funding, which are necessary to achieve the Bank's aims.

The Bank is also maintaining a liquid assets portfolio, which is a part of its liquidity risk management strategy.

### **Market risk**

Market risk is a financial risk related to the future value of assets and liabilities of the Issuer, influenced by changes in interest rates, currency exchange rates and changes in commodity and share prices. The Issuer's activity can be threatened by changes in interest rates and currency exchange rates. In the result of such variations, the income both can increase and decrease. The limitations of variation impact are determined by the demand of "Foreign currency risk management policy" and "Interest rate risk management policy" defined in the Bank's Risk management policy and which are essential parts of it. The limits restricting those Risks are being revised on a regular basis.

The Bank's reliance on changes of interest rates is being controlled by the Investments department of the Bank on everyday basis, and also by the Risk Department on a regular basis, using analysis method of assets and liabilities reassessment term distortion (GAP), subjected to the changes of interest rates.

The Bank's Board determines basic rates for clients' credits and deposits, as well as defines the key principles by the development of the Bank's investment portfolio.

The Bank's "Foreign currency risk management policy" determines admissible amount of open positions for the separate currencies and the total open position for currency. The Investments department ensures the Bank's operation within the approved limits for the open currency positions, the Risk Department controls the observance of the limits stated in the policy

In the case of necessity the Bank's dependence from the Market risk is reduced with an aid of derivative financial instruments.

### **Operational risk**

Operational risk is a possibility to incur loss due to the inadequate or incomplete internal process, human or system operation, or due to the impact of external conditions, including legal risk, but excluding strategic and reputation risk.

The Bank has developed the operational risk monitoring policy.  
In 2007 the system for the operational risk identification was introduced in the Bank.

The Risk department instigates events for risk limitation and diminishing.

Structural units, which are involved into processes, are responsible for implementation of direct events in order to identify, limit and reduce loss of the operational risk. The Risk department is responsible for the risk management coordination and systematization and analysis of the operational risk cases, submitted by the structural units, as well as for the report preparation about the operational risk level.

The report receivers ensure the information analysis in order to improve the Bank's Operational risk management practice and the management policy and procedures.

For calculation of the operational risk capital demand the Bank has chosen the Key figure approach.



## Ratings

Three leading rating agencies *Fitch Ratings*, *Moody's Investors Services*, and *Standard&Poor's* has assigned ratings for Krājbanka

### **Rating assigned by Fitch Ratings**

Rating agency *Fitch Ratings* assigned ratings to Krājbanka (revised on 29 February 2008):

- Long-term liabilities in foreign currency B
- Short-term liabilities in foreign currency B
- Development forecast Stable
- Individual rating D/E
- Supporting rating 4

#### *Influencing risk factors*

- State rating on long-term liabilities in foreign currency BBB+
- State rating on long-term liabilities in national currency A-
  
- Development forecast Stable

The rating agency *Fitch Ratings* has diminished credit rating for Latvia on 17 August 2007 for long-term liabilities in foreign currency from "A-" to "BBB+", maintaining the status of the country favourable for investments.

The credit rating for short-term liabilities in foreign currency remains of the F2 level, for the long-term liabilities in national currency – from "A" to "A-".

The above-mentioned information is published on the *Fitch Ratings* web site [www.fitchratings.com](http://www.fitchratings.com).

### **Ratings assigned by Moody's Investors Service**

Rating agency *Moody's Investors Service* assigned rating to Krājbanka (increased on 24 February 2007):

- long-term deposit rating Ba2 (increased from Ba3)
- short-term deposit rating Not Prime
- financial stability rating D-
- development forecast Stable

The international rating agency *Moody's Investors Service* has increased the AS "Latvijas Krājbanka" credit ratings due to the introduction of new rating calculating methodology.

The ratings assigned to the "Latvijas Krājbanka" for the long-term deposits in foreign and national currencies are increased from Ba3 to Ba2.

*Moody's* points out that the new methodology (joint default analysis, JDA methodology) allows to assess financial stability of banks disregard of external support, which can be received from the proprietors.

The above-mentioned information is published on the *Moody's Investors Service* web site [www.moodys.com](http://www.moodys.com)

### **Ratings assigned by Standard&Poor's**

Rating agency *Standard&Poor's* assigned ratings to Krājbanka (assigned on 26 March 2008):

- long-term deposit rating B +
- short-term deposit ratings B
- development forecast Stable

The Bank's development forecast is evaluated as stable.

In its statement the rating agency has approvingly evaluated Latvijas Krājbanka`s wide client service centre network, its recognizability, good resources base and liquidity, as well as innovative sale strategy of the bank's products and services.

The above-mentioned information is published on the Standard & Poor's web site [www.standardandpoors.com](http://www.standardandpoors.com)

## The additional information

For information purposes Financial statements are presented in EUR currency by rate of exchange 1 EUR=0,702804 LVL (31.03.2008 and 31.03.2007).

### Profit and loss statement 31 March 2008

EUR '000	Group 31.03.2008 (unaudited)	Group 31.03.2007 (unaudited)	Bank 31.03.2008 (unaudited)	Bank 31.03.2007 (unaudited)
Interest income	12,388	7,973	12,332	8,006
Interest expense	(6,962)	(4,018)	(6,972)	(4,022)
<b>Net interest income</b>	<b>5,426</b>	<b>3,955</b>	<b>5,360</b>	<b>3,984</b>
Commission and fee income	3,123	2,854	3,018	2,833
Commission and fee expense	(785)	(627)	(783)	(626)
<b>Net commission and fee income</b>	<b>2,338</b>	<b>2,227</b>	<b>2,235</b>	<b>2,207</b>
Profit on sale of securities and foreign exchange trading	1,975	482	1,978	482
Other operating income	609	317	582	316
<b>Operating income</b>	<b>10,348</b>	<b>6,981</b>	<b>10,155</b>	<b>6,989</b>
Personnel expense	(3,976)	(2,886)	(3,859)	(2,829)
Depreciation and amortisation expense	(729)	(633)	(729)	(633)
Other operating expenses	(2,955)	(1,979)	(2,874)	(1,948)
<b>Total operating expenses</b>	<b>(7,660)</b>	<b>(5,498)</b>	<b>(7,462)</b>	<b>(5,410)</b>
Impairment losses	(1,181)	(544)	(1,181)	(543)
Reversal of impairment losses	219	233	219	233
<b>Profit before corporate income tax</b>	<b>1,726</b>	<b>1,172</b>	<b>1,731</b>	<b>1,269</b>
Corporate income tax	(336)	(182)	(334)	(182)
<b>Profit for the reporting period</b>	<b>1,390</b>	<b>990</b>	<b>1,397</b>	<b>1,087</b>
Earnings per share (in lats per share)	<b>0.114</b>	<b>0.108</b>	<b>0.115</b>	<b>0.119</b>

**Balance sheets**  
**31 March 2008**

EUR '000	Grupa 31.03.2008 (unaudited)	Grupa 31.12.2007 (audited)	Banka 31.03.2008 (unaudited)	Banka 31.12.2007 (audited)
<b><u>Assets</u></b>				
Cash and deposits with the central bank	73,945	68,513	73,945	68,513
Balances due from credit institutions and the central bank	130,413	391,301	130,413	391,301
Loans and advances to customers	443,531	423,562	444,426	424,367
Financial assets at fair value through profit or loss	29,264	31,282	29,264	31,282
Held-to-maturity investments	11,727	6,754	11,727	6,754
Investment in subsidiaries	-	-	911	911
Intangible assets	1,807	1,707	1,586	1,518
Fixed assets	27,667	27,691	27,207	27,215
Prepayments and accrued income	889	922	848	891
Other assets	11,915	3,503	11,365	3,159
<b>Total assets</b>	<b>731,158</b>	<b>955,235</b>	<b>731,692</b>	<b>955,911</b>
<b><u>Liabilities</u></b>				
Balances due to the central bank and credit institutions	21,912	37,945	21,912	37,945
Deposits from the customers	617,970	833,986	618,607	834,615
Issued debt instrument	5,046	5,112	5,046	5,112
Derivative liabilities	785	649	785	649
Deferred income and accrued expenses	2,157	2,583	2,114	2,514
Deferred tax liability	1,343	1,207	1,343	1,207
Corporate income tax liability	303	1,369	293	1,359
Other liabilities	13,429	1,350	13,009	1,113
Subordinated debt	12,103	12,682	12,103	12,682
<b>Total liabilities</b>	<b>675,048</b>	<b>896,883</b>	<b>675,212</b>	<b>897,196</b>
<b><u>Shareholders' equity</u></b>				
Paid-in share capital	17,287	17,287	17,287	17,287
Share premium	17,501	17,501	17,501	17,501
Reserve capital and other reserves	891	891	891	891
Revaluation reserve	7,615	7,615	7,615	7,615
Retained earnings	12,816	15,058	13,186	15,421
Total issued capital and reserves attributable to equity holders	<b>56,110</b>	<b>58,352</b>	<b>56,480</b>	<b>58,715</b>
<b>Total shareholders' equity</b>	<b>56,110</b>	<b>58,352</b>	<b>56,480</b>	<b>58,715</b>
<b>Total liabilities and shareholders' equity</b>	<b>731,158</b>	<b>955,235</b>	<b>731,692</b>	<b>955,911</b>
<b><u>Off-balance items</u></b>				
Contingent liabilities	2,649	40,220	2,649	40,220
Commitments	29,244	35,857	31,478	36,204

## Cash flow statement

EUR '000	Group 31.03.2008 (unaudited)	Group 31.03.2007 (unaudited)	Bank 31.03.2008 (unaudited)	Bank 31.03.2007 (unaudited)
<b>Operating activities</b>				
Result before corporate income tax	1,726	1,172	1,731	1,269
Depreciation and amortisation	729	633	729	633
(Decrease)/ increase in provisions for liabilities and charges	(4)	1,365	(3)	1,345
Loss / (gain) on revaluation of foreign currency	408	414	409	414
(Gain)/ loss on revaluation of investments	(38)	(260)	(38)	(191)
Loss / (gain) from disposal of fixed assets, net	18	13	18	13
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>	<b>2,839</b>	<b>3,337</b>	<b>2,846</b>	<b>3,483</b>
(Decrease) in deferred income and accrued expenses	(425)	(1,409)	(400)	(1,407)
(Increase) in prepayments and accrued income	33	(129)	43	(129)
Net (increase)/ decrease in derivative instruments	(1,172)	(501)	(1,172)	(501)
Decrease in other assets	(9,358)	(12,338)	(9,152)	(12,356)
(Decrease) in other liabilities	12,079	5,633	11,897	5,647
(Decrease) in financial assets fair value though profit or loss	3,365	(23,630)	3,365	(23,570)
Increase in financial assets held to maturity	(4,972)	(11)	(4,972)	(71)
Increase in trading financial assets	-	(1,266)	-	(1,336)
(Increase) in balances due from the central bank and credit institutions	15,096	(276)	15,096	(276)
(Increase) in loans and advances to non-banking customers	(19,969)	(10,790)	(20,058)	(10,768)
Increase in deposits from the public	(216,016)	39,268	(216,009)	39,341
<b>Net increase in cash and cash equivalents from operating activities</b>	<b>(218,500)</b>	<b>(2,112)</b>	<b>(218,516)</b>	<b>(1,943)</b>
Paid income tax	(316)	(471)	(316)	(471)
<b>Net increase in cash and cash equivalents</b>	<b>(218,816)</b>	<b>(2,583)</b>	<b>(218,832)</b>	<b>(2,414)</b>
<b>Cash inflow/ outflow from investing activities</b>				
(Purchase) of fixed and intangible assets	(824)	(2,720)	(808)	(2,718)
Proceeds from disposal of fixed and intangible assets	1	539	1	539
Investment in associate and subsidiary, net	-	-	-	(171)
<b>Increase in cash and cash equivalents from investing activities</b>	<b>(823)</b>	<b>(2,181)</b>	<b>(807)</b>	<b>(2,350)</b>
<b>Cash inflow from financing activities</b>				
Issue of shares	-	4,013	-	4,013
Issue of debt instrument	-	5,041	-	5,041
Issue of subordinated debt	-	-	-	-
Dividends paid	(3,632)	-	(3,632)	-
<b>Increase in cash and cash equivalents from financing activities</b>	<b>(3,632)</b>	<b>9,054</b>	<b>(3,632)</b>	<b>9,054</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(223,271)</b>	<b>4,290</b>	<b>(223,271)</b>	<b>4,290</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>402,052</b>	<b>167,967</b>	<b>402,052</b>	<b>167,967</b>
Profit/(loss) from revaluation of foreign currency positions	(1,054)	(499)	(1,054)	(499)
<b>Cash and cash equivalents at the end of the period</b>	<b>177,727</b>	<b>171,758</b>	<b>177,727</b>	<b>171,758</b>

## Statement of changes in shareholder's equity

<b>Group</b> <b>EUR '000</b>	<b>Paid – in</b> <b>share capital</b>	<b>Share</b> <b>premium</b>	<b>Reserve</b> <b>capital</b> <b>and other</b> <b>reserves</b>	<b>Revaluation</b> <b>reserve</b>	<b>Retained</b> <b>earnings</b>	<b>Total</b> <b>shareholders'</b> <b>equity and</b> <b>minority</b> <b>interest</b>
<b>Balance as at</b>						
<b>31 December 2006</b>	<b>12,957</b>	<b>1,882</b>	<b>891</b>	<b>4,039</b>	<b>10,830</b>	<b>30,599</b>
Change in deferred tax related to revaluation reserve	-	-	-	(194)	-	(194)
Revaluation charged	-	-	-	3,770	-	3,770
Total income and expense for the year recognised directly in equity	-	-	-	3,576	-	3,576
Profit for the year	-	-	-	-	7,049	7,049
Total income and expense for the year	-	-	-	3,576	7,049	10,625
Dividends paid	-	-	-	-	(2,821)	(2,821)
Issue of shares	4,330	15,619	-	-	-	19,949
<b>Balance as at</b>						
<b>31 December 2007</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>7,615</b>	<b>15,058</b>	<b>58,352</b>
Dividends paid	-	-	-	-	(3,632)	(3,632)
Profit for the period	-	-	-	-	1,390	1,390
<b>Balance as at</b>						
<b>31 March 2008</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>7,615</b>	<b>12,816</b>	<b>56,110</b>

<b>Bank</b> <b>EUR '000</b>	<b>Paid – in share</b> <b>capital</b>	<b>Share</b> <b>premium</b>	<b>Reserve</b> <b>capital</b> <b>and other</b> <b>reserves</b>	<b>Revaluatio</b> <b>n reserve</b>	<b>Retained</b> <b>earnings</b> <b>attributed to the</b> <b>shareholders' of</b> <b>the Bank</b>	<b>Total</b> <b>shareholders'</b> <b>equity</b>
<b>Balance as at</b>						
<b>31 December 2006</b>	<b>12,957</b>	<b>1,882</b>	<b>891</b>	<b>4,039</b>	<b>10,914</b>	<b>30,683</b>
Change in deferred tax related to revaluation reserve	-	-	-	(194)	-	(194)
Revaluation charged	-	-	-	3,770	-	3,770
Total income and expense for the year recognised directly in equity	-	-	-	3,576	-	3,576
Profit for the year	-	-	-	-	7,328	7,328
<b>Total income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,576</b>	<b>7,328</b>	<b>10,904</b>
Dividends paid	-	-	-	-	(2,821)	(2,821)
Issue of shares	4,330	15,619	-	-	-	19,949
<b>Balance as at</b>						
<b>31 December 2007</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>7,615</b>	<b>15,421</b>	<b>58,715</b>
Dividends paid	-	-	-	-	(3,632)	(3,632)
Profit for the period	-	-	-	-	1,397	1,397
<b>Balance as at</b>						
<b>31 March 2008</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>7,615</b>	<b>13,186</b>	<b>56,480</b>

**JSC "LATVIJAS KRĀJBANKA"**  
**Managerial Structure**  
 (valid from 01.05.2008 )

