

AS "Latvijas Krājbanka"
Interim report
for 3 months of 2010
(unaudited)

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As at 31 March 2010 the members of the Supervisory Council of the Bank were as follows:

Supervisory Council

Name, surname	Position	Date of appointment\ reappointment
Raimondas Baranauskas	Chairman of the Council	28/10/2005 \ 26/03/2010
Alexander Antonov	Deputy Chairman of the Council	28/10/2005 \ 26/03/2010
Vladimir Antonov	Member of the Council	07/09/2009\ 26/03/2010
Naglis Stancikas	Member of the Council	28/10/2005 \ 26/03/2010
Oleg Sukhorukov	Member of the Council	28/10/2005 \ 26/03/2010

New Council of AS "Latvijas Krājbanka" (hereinafter referred to also as the Bank) was elected at the Shareholders` meeting of the Bank held on March 26, 2010. The new Council shall be composed of five members: Raimondas Baranauskas, Alexander Antonov, Vladimir Antonov, Oleg Sukhorukov and Naglis Stancikas. Mārtiņš Bondars was not reelected into the Council of the Bank. At the Council meeting, held on March 29, 2010, Raimondas Baranauskas was elected the chairman of the Council, and Alexander Antonov was elected the deputy chairman of the Council.

During the time period from 31 December 2009 until signing this financial report, there have been no other changes in the composition of the AS "Latvijas Krājbanka" board.

As at 31 March 2010 the members of the Management Board of the Bank were as follows:

Management Board

Name, surname	Position	Date of appointment\ reappointment
Ivars Priedītis	Chairman of the Board / President	18/07/2007
Dzintars Pelcbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006 \ 03/01/2009
Svetlana Ovčiņņikova	Member of the Board	19/06/2006\ 20/06/2009
Andrejs Surmačs	Member of the Board	28/10/2005 \ 24/10/2008

During the time period from 31 December 2009 until signing this financial report, there have been no changes in the composition of the AS "Latvijas Krājbanka" board.

Appointment and dismissal of the Board Members is made in accordance with the Commercial Law and the Articles of Association of the Bank. The Council of the Bank has the right to appoint and dismiss the Board Members. The Board Members are elected for a 3-year period and the Council elects the Chairman (president) and the First Deputy Chairman (first vice-president) of the Board from the Board Members.

Statement of responsibility of the management

The Management of AS Latvijas Krājbanka is responsible for the preparation of the financial statements of the Bank.

These financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and give a true and fair view of the assets, liabilities and financial position of the Bank and the Group as at 31 March 2010 and 31 December 2009, and results of their operations, changes in the shareholders' equity and cash flows for periods ended 31 March 2010 and 31 March 2009.

The financial statements in accordance with the source documents and present fairly the financial position of the Bank as at 31 March 2010.

The interim consolidated financial statements for the 3-month period ended 31 March 2010 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgment and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Latvijas Krājbanka is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, the regulations of the Bank of Latvia, the instructions of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

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

Riga,
31 May 2010

Consolidated entities
31 March 2010

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 "LKB Krājfondi" Reg. Nr. 40003605043	LV, Rīga, J.Daliņa street 15	ISA	100	100	MS
2.	AS "Ieguldījumu pārvaldes sabiedrība "LKB Asset Management" Reg.Nr. 40003818124	LV, Rīga, J.Daliņa street 15	ISA	100	100	MS
3.	SIA "Krājinvestīcijas" Reg.Nr. 40003687374	LV, Rīga, Jekaba street 2	CKS	100	100	MS
4.	SIA "LKB līzings" Reg. Nr. 40003887450	LV, Rīga, J.Daliņa street 15	CFI	100	100	MS
5.	AS "Pirmais atklātais pensiju fonds" Reģ.Nr. 40003377918	LV, Rīga, Kr.Valdemara street 76-1A	PFO	100	100	MS
6.	SIA "LKB drošība" Reģ.Nr. 40103179152	LV, Rīga, Jekaba street 2	CKS	100	100	MS
7.	AAS "LKB Life" Reģ. Nr. 400033053851	LV, Rīga, J.Daliņa street 15	APS	99.79	99.79	MS
8.	SIA "LKB Collect" Reģ.Nr. 40103251717	LV, Rīga, J.Daliņa street 15	CKS	100	100	MS
9.	AS IBS "Renesource Capital" Reģ.Nr. 40003415571	LV, Rīga, J.Daliņa street 15	ISA	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 2010

LVL '000	Group 31.03.2010 (unaudited)	Group 31.03.2009 (unaudited)	Bank 31.03.2010 (unaudited)	Bank 31.03.2009 (unaudited)
Interest revenue	6,236	8,935	6,217	8,088
Interest expense	(7,021)	(5,785)	(7,078)	(5,658)
Net interest revenue	(785)	3,150	(861)	2,430
Commission and fee revenue	2,796	2,214	2,749	2,111
Commission and fee expense	(1,018)	(511)	(1,140)	(507)
Net commission and fee revenue	1,778	1,703	1,609	1,604
Dividend	-	-	-	-
Net result on sale of securities and foreign exchange trading and revaluation	1,081	2,712	996	2,791
Other operating revenue	701	913	555	731
Operating revenue	2,775	8,478	2,299	7,556
Personnel expense	(2,558)	(3,072)	(2,288)	(2,830)
Depreciation and amortization expense	(477)	(572)	(457)	(518)
Other operating expenses	(2,477)	(3,650)	(2,269)	(2,478)
Total operating expenses	(5,512)	(7,294)	(5,014)	(5,826)
Impairment losses	(79)	(3,560)	(79)	(777)
(Loss)/ profit before corporate income tax	(2,816)	(2,376)	(2,794)	953
Corporate income tax	(21)	(143)	(5)	(133)
(Loss)/ profit for the reporting year	(2,837)	(2,519)	(2,799)	820
Attributable to:				
Shareholders of the Bank	(2,837)	(1,025)	(2,799)	820
Minority interest	-	(1,494)	-	-
Basic earnings per share (Lats per share)	(0,147)	(0,084)	-	-
Diluted earnings per share (Lats per share)	-	-	-	-

Statement of Comprehensive Income

LVL '000	Group 31.03.2010 (unaudited)	Group 31.03.2009 (unaudited)	Bank 31.03.2010 (unaudited)	Bank 31.03.2009 (unaudited)
(Loss)/ profit for the reporting year	(2,837)	(2,519)	(2,799)	820
Foreign currency revaluation reserve	-	-	-	-
<i>Change of revaluation reserve</i>	-	-	-	-
<i>Income tax</i>	-	-	-	-
Net change of revaluation reserve	-	-	-	-
Non-controlling interest of subsidiaries acquired	-	-	-	-
Non-controlling interest of subsidiaries sold	-	-	-	-
Prior year profit of subsidiaries sold	-	-	-	-
Other comprehensive (loss)/profit for the period, net of taxes	-	-	-	-
Total comprehensive (loss)/profit for the reporting period	(2,837)	(2,519)	(2,799)	820
Attributable to:				
Shareholders of the Bank	(2,837)	(1,025)	(2,799)	820
Minority interest	-	(1,494)	-	-

Balance sheets

31 March 2010

LVL '000	Group 31.03.2010 (unaudited)	Group 31.12.2009 (audited)	Bank 31.03.2010 (unaudited)	Bank 31.12.2009 (audited)
Assets				
Cash and deposits with the central bank	92,180	44,332	92,180	44,332
Due from credit institutions and the central bank	109,146	102,464	108,615	102,239
Loans and advances to customers	359,944	361,186	367,467	368,568
Financial assets at fair value through profit or loss	3,726	5,721	3,052	5,509
Financial assets held for trading	75	-	75	-
Available-for-sale financial assets	-	-	-	-
Held-to-maturity investments	16,914	11,426	16,898	11,108
Investment properties	2,124	1,153	1,153	1,153
Assets held for sale	4,275	4,275	4,275	4,275
Investments in subsidiaries	-	-	4,322	4,322
Intangible assets	1,487	1,537	1,145	1,191
Fixed assets	19,382	19,537	19,039	19,313
Prepayments and accrued income	1,465	717	1,447	702
Corporate income tax receivable	904	689	861	689
Other assets	18,528	13,731	12,496	6,505
Total assets	630,150	566,768	633,025	569,906
Liabilities				
Due to the central bank and credit institutions	889	16,431	889	16,431
Deposits from customers	557,306	476,155	561,438	480,418
Derivatives	40	172	40	172
Debt securities issued	-	3,546	-	3,546
Deferred income and accrued expenses	1,710	1,422	1,591	1,376
Provisions for off-balance sheet commitments	-	-	902	902
Corporate income tax liability	60	45	-	-
Deferred tax liability	847	847	847	847
Other liabilities	7,004	3,496	4,541	1,115
Subordinated debt	15,658	15,181	15,658	15,181
Total liabilities	583,514	517,295	585,906	519,988
Equity				
Paid-in share capital	19,324	19,324	19,324	19,324
Share premium	15,887	15,887	15,887	15,887
Reserve capital and other reserves	626	626	626	626
Revaluation reserve	4,767	4,767	4,767	4,767
Foreign currency translation reserve	-	-	-	-
Retained earnings	6,027	8,864	6,515	9,314
Total shareholders' equity	46,631	49,468	47,119	49,918
Minority interest	5	5	-	-
Total shareholders' equity	46,636	49,473	47,119	49,918
Total liabilities and capital and reserves	630,150	566,768	633,025	569,906

Statement of changes in shareholder's equity

Attributable to equity holders of the parent

Group LVL '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluati on reserve	Foreign currency translation reserve	Retained earnings	Minority interest	Total equity
Balance as at 01 January 2009	12,149	12,300	626	5,364	(322)	10,800	663	41,580
Profit for the period						(1,025)	(1,494)	(2,519)
Comprehensive (loss)/income	-	-	-	-	-	-	-	-
Total comprehensive (loss)/income	-	-	-	-	-	(1,025)	(1,494)	(2,519)
Dividends paid	-	-	-	-	-	(1)	-	(1)
Balance as at 31 March 2009 (unaudited)	12,149	12,300	626	5,364	(322)	9,774	(831)	39,060
Balance as at 01 January 2010	19,324	15,887	626	4,767	-	8,864	5	49,473
(Loss)/profit for the period	-	-	-	-	-	(2,837)	-	(2,837)
Other comprehensive (loss)/income	-	-	-	-	-	-	-	-
Total comprehensive (loss)/income	-	-	-	-	-	(2,837)	-	(2,837)
Dividends paid	-	-	-	-	-	-	-	-
Balance as at 31 March 2010 (unaudited)	19,324	15,887	626	4,767	-	6,027	5	46,636

Group LVL '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total equity
Balance as at 01 January 2009	12,149	12,300	626	5,364	11,293	41,732
Profit for the period	-	-	-	-	820	820
Comprehensive (loss)/income	-	-	-	-	-	-
Total comprehensive (loss)/income	-	-	-	-	820	820
Dividends paid	-	-	-	-	(1)	(1)
Balance as at 31 March 2009 (unaudited)	12,149	12,300	626	5,364	12,112	42,551
Balance as at 01 January 2010	19,324	15,887	626	4,767	9,314	49,918
(Loss)/profit for the period	-	-	-	-	(2,799)	(2,799)
Other comprehensive (loss)/income	-	-	-	-	-	-
Total comprehensive (loss)/income	-	-	-	-	(2,799)	(2,799)
Dividends paid	-	-	-	-	-	-
Balance as at 31 March 2010 (unaudited)	19,324	15,887	626	4,767	6,515	47,119

During the Year 2009, the Bank paid dividends for preferred shares in the amount of LVL 0.244 per share.

The capital adequacy ratio of the Bank as of 31 March 2010 amounts to 11.09%.

Cash flow statement

LVL '000	Group 31.03.2010 (unaudited)	Group 31.03.2009 (unaudited)	Bank 31.03.2010 (unaudited)	Bank 31.03.2009 (unaudited)
Cash flow from operating activities				
(Loss)/ profit before corporate income tax	(2,816)	(2,376)	(2,794)	953
Depreciation and amortization	477	572	457	518
Increase in impairment losses	79	3,561	79	777
(Gain)/loss on revaluation of foreign currency	(3,212)	(153)	(3,187)	(248)
(Gain)/loss on revaluation of investments	(314)	(32)	(314)	(16)
Loss on revaluation of fixed assets	-	-	-	-
(Gain)/loss from disposal assets	-	-	-	-
(Gain)/loss from disposals of fixed and intangible assets	(1)	-	(1)	-
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	(5,787)	1,572	(5,760)	1,984
Decrease/(increase) in balances due from the central bank and credit institutions	7,217	7,499	7,638	6,545
(Increase)/decrease in loans and advances to customers	1,166	(4,274)	1,025	(5,599)
Decrease/(increase) in financial assets at fair value through profit or loss	2,217	(37)	2,679	447
Increase/(decrease) in financial assets held for trading	(75)	6	(75)	-
Increase/(decrease) in held-to-maturity investments	-	-	-	-
(Increase)/ decrease in prepayments and accrued income	(748)	(66)	(745)	(58)
(Increase)/decrease in other assets	(5,971)	(7,349)	(6,171)	(6,468)
(Decrease)/increase in balances due to the central bank and credit institutions	10	(1,046)	10	(22)
(Decrease)/increase in deposits from customers	81,151	(117,047)	81,020	(116,817)
Net (increase)/decrease in derivative instruments	(40)	(867)	(40)	(867)
(Decrease)/increase in debt securities issued	(3,546)	(70)	(3,546)	(70)
Increase/(decrease) in deferred income and accrued expenses	288	361	215	161
(Decrease)/increase in other liabilities	3,508	1,679	3,426	1,137
Cash generated from operating activities before corporate income tax	79,390	(119,639)	79,676	(119,627)
Corporate income tax paid	(21)	(10)	-	-
Net cash flow from operating activities	79,369	(119,649)	79,676	(119,627)
Cash flow from investing activities				
Purchase of fixed and intangible assets	(300)	(293)	(150)	(271)
Proceeds from disposal of fixed and intangible assets	29	23	14	23
Investments in associates subsidiaries, net	-	-	-	-
(Purchase) in held-to-maturity investments	(7,574)	(191)	(7,876)	(399)
Proceeds from held-to-maturity investments	2,086	8,022	2,086	8,022
Net cash flow from investing activities	(5,759)	7,561	(5,926)	7,375
Cash flow from financing activities				
Issue of shares	-	-	-	-
Share premium	-	-	-	-
Dividends paid	-	(1)	-	(1)
Cash proceeds from issuing shares to Non-controlling investors in subsidiary	-	-	-	-
Proceeds from issue of subordinated debt	144	-	144	-
Net cash flow financing activities	144	(1)	144	(1)
Net cash flow for the period	73,754	(112,089)	73,894	(112,253)
Cash and cash equivalents at the beginning of the year	123,012	241,694	122,788	241,356
Profit/(loss) from revaluation of foreign currency	3,545	538	3,520	634
Cash and cash equivalents at the end of the year	200,311	130,143	200,202	129,737

Cash flows from interest and dividends:

LVL '000	Group 31.03.2010 (unaudited)	Group 31.03.2009 (unaudited)	Bank 31.03.2010 (unaudited)	Bank 31.03.2009 (unaudited)
Interest paid	(740)	(563)	(683)	(690)
Interest received	(811)	4,561	(830)	3,714
Dividends received	-	-	-	-

Operational results
31 March 2010

Name of the Item	Reporting period (unaudited)	Previous reporting year (audited)
Return on equity (ROE) (%)	(22.49)	(4.72)
Return on assets (ROA) (%)	(1.90)	(0.36)

Shareholders and Equity

On 31 March 2010, the Bank's registered and paid-in capital comprised 19,324 thousand lats (in 31.12.2009: LVL 19,324 thousand)). The stock capital consists of 19,324,248 shares, including 19,321,414 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 „NASDAQ OMX Riga". There are no limitations for transfer of the Bank's shares. As of the signing date of the present financial statements the biggest shareholder of the Bank is AB Bankas "Snoras", having its legal address at: 7 A. Vivulskio Str., LT-03221, in Vilnius, the Republic of Lithuania, which as of March 31, 2010 owned 85,07% (16,437,056) of the shares with voting right. Vladimir Antonov has lost direct qualifying holding in the Bank after he sold his shares of AS "Latvijas Krājbanka". During the time period from January 1, 2010 until the end of the accounting period there have been no significant changes in the biggest shareholders` structure of Krājbanka.

Shares

JSC "Latvijas Krājbanka" shares are listed on NASDAQ OMX Riga Secondary market (till May 21, 2007 Free list) since October 27, 2004:

ISIN	LV0000101103, LV0000200012
Ticker	LKB1R, LKB2R
Nominal value	1,00 LVL
Indexes	B40GI, B40PI, OMXBGI, OMXBPI, OMXRGI

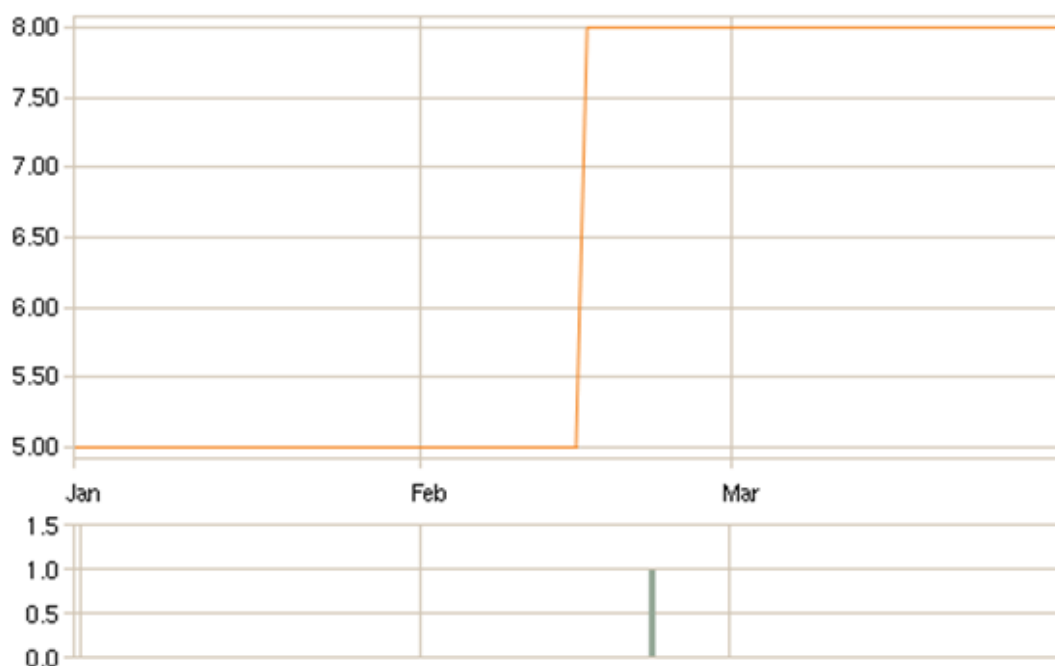
JSC "Latvijas Krājbanka" share (LKB1R) price development for the period 01.01.10 – 31.03.10



Currency: LVL

Open	0.86 LVL
Max	1.35 LVL
Min	0.82 LVL
Last	1.15 LVL
Change	47.44 %
Deals	117
No of shares traded	25 006
Turnover	24 601.84 LVL

JSC "Latvijas Krājbanka" share (LKB2R) price development for the period 01.01.10 – 31.03.10



Currency: LVL

Open	5.00 LVL
Max	8.00 LVL
Min	8.00 LVL
Last	8.00 LVL
Change	60.00 %
Deals	2
No of shares traded	124
Turnover	992.00 LVL

Summary of significant accounting policies

The interim consolidated financial statements for the 3-month period ended 31 March 2010 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 is consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

Basic guidelines of the development strategy for 2010-2011

Mission of the Bank

Latvijas Krājbanka is a universal network commercial bank ensuring full range of services in Latvia. Historically the Bank has been one of the leaders in terms of number of private clients – Latvian residents. Loyalty of Latvian residents, small and medium companies and municipalities toward the Bank during all these years has been and will be one of the biggest core values of the Bank, ensuring stable development of the Bank and steady positions on the financial market.

Accrued international experience and affiliation to an international financial group allows the Bank to provide qualified services also to clients on the international markets.

One of the most significant values of the Bank is its brand, which has proved to be recognizable mark and founding for clients` loyalty during 85 years and especially during the last 10 years. In its activity the Bank continues implementing the motto "Latvijas Krājbanka - Your Closest Bank".

The Bank's strategy is developed for the time period 2010-2011 and within the period it will be updated according to the economic and financial situation in Latvia and in the world. In the strategy development the emphasis was placed on the essential preconditions of the further successful existence of the Bank: provision of liquidity, capital adequacy management, credit risk management and Maintaining market share under intense competition, insufficient external funding and reduction of clients` solvency.

1. Business vision.

1.1. Clients.

Target client group of Latvijas Krājbanka –

- a) Natural persons - residents (1st basic group – persons with small and average income, who regularly use the bank's services and make deposits. 2nd basic group – persons with incomes above the average level, who receive individual service, and provide the Bank with less stable, but higher revenue);
- b) Legal entities- small and medium-sized enterprises in Latvia, newly established enterprises, corporate or big enterprises.

Maintaining high demands, corresponding to legislation, in non-resident service Krājbanka sees an additional source for attraction of external resources.

1.2. Products and Sales

Latvijas Krājbanka will continue to develop its products and services according to the requirements of the client base, as well as Krājbanka will develop new product baskets with an aim to increase the active client base during next three years at least by 30%, at the same time increasing each active client's economic efficiency with the Bank, i.e., to ensure the increase of number of services and products used by each active client - so that every client-natural person would regularly use at least three, but legal entity – at least five products of the Bank.

1.3. Markets and Market Presence

Latvia will remain the primary market of the Bank also during the next period. With a decline of economic environment in Latvia, which happens more rapidly than in the world on average, the Bank will continue to facilitate funding of such clients` projects, who implement the projects abroad.

1.4. Investment Policy

Krājbanka investment strategy will be based on the following principles: risk diversification and maximization of return on investment, the investments will be made within the Krājbanka capital management strategy.

1.5. Target Results

During the planning period it is not possible to plan reasonably the dynamics of key figures by years, due to the influence of external factors.

The planned figures as of the end of 2011:

- a) Increase of the Bank's equity by 70%, reaching LVL 71 million;
- b) Increase of the Bank's assets by 20%, reaching LVL 820 million;

- c) The credit portfolio increase by 15%, reaching LVL 400 million;
- d) Increase of deposit dynamics by at least 15%;
- e) Increase of net commission income by 15 %, reaching LVL 7,8 million;
- f) Increase of the income from trade with financial instruments and currency transactions by 40%, reaching LVL 9 million.

2. Management of the Capital and Risks Essential to the Activity of the Bank.

Main principles of the risk management - efficient risk management, corresponding risk evaluation and regular control.

2.1. Capital Adequacy Management Strategy.

By managing capital and distributing assets according to risk level, Krājbanka is trying to achieve optimum ratio between the risk and profitability. Krājbanka ensures equity in the amount, which would ensure adequacy of Krājbanka risk covering, and also plans economic capital or the necessary capital, which ensures covering of unforeseen loss, or the amount of capital, by which the balance between anticipated profit and the insolvency is ensured.

Krājbanka manages all identified risks:

- a) credit risk, market risk, operational risk;
- b) transaction concentration risk;
- c) interest rate risk in the non-trade portfolio;
- d) business risk.

The Bank will perform regular assessment of those risks, which could influence achievement of its goals, the non-identifiable risks are accepted as inevitable.

If the capital adequacy index becomes dangerously low, risk asset restructuring and new capital attraction is being performed, by accumulating inner and external resources. External reserves for capital attraction are being planned if the amount of capital, which is formed in the result of Krājbanka activities, is not sufficient to ensure Krājbanka development in the future.

2.2. Credit Risk.

The credit risk management is being performed according to the Credit policy of Krājbanka and the principle of commensurability of risk and profitability. The credit portfolio is being maintained considering wide diversification and avoiding increase of risk strengthening. It is ensured by preserving geographical, branch and product type diversity in the portfolio, according to the effective limits. The increase of Krājbanka crediting amount should be steady and appropriate to economic situation in Latvia.

2.3. Liquidity Risk Management

Krājbanka manages the Liquidity risk according to the limits defined in the Risk management policy. Krājbanka maintains the liquidity, which is not lower than 30 percents for the total amount of current liabilities of the Bank, and in 2010 Krājbanka maintains high liquidity.

2.4. Operational Risk

The Bank's goal is to maintain the lowest possible risk level, at the same time ensuring the lowest possible level of costs.

2.5. Human Resources Policy.

Krājbanka will evaluate the work amount of employees, making the necessary corrections in the personnel composition and in the structure of Krājbanka. The Bank will continue to increase professional development and work efficiency of employees.

2.6. Provision of Business support Function

2.6.1. IT development

Krājbanka will continue to implement single information technology policy in all its structures, by unifying programmes, enhancing safety level of the technical systems and expanding the functionality. Special attention will be driven towards effective use and improvement of modern information and communication systems, which will create additional possibilities of qualitative and quick client service for Krājbanka and will allow to reduce client service costs. Krājbanka subsidiaries will be ensured with IT service support.

2.6.2. Use of External Services

Krājbanka will continue to evaluate the possible use of external services.

3. Development of Krājbanka group

The Bank's development happens along with activity of the companies working within the group. At present the following subsidiaries are working within the Bank's group:

- a) AS "Ieguldījumu pārvaldes sabiedrība LKB Krājfondi" (JSC);
- b) AS "Ieguldījumu pārvaldes sabiedrība "LKB Asset management""(JSC);
- c) SIA "LKB lizings" (Ltd.);
- d) AS "Pirmais atklātais pensiju fonds" (JSC);
- e) SIA "Krājinvestīcijas" (Ltd.);
- f) SIA "LKB Drošība" (Ltd.);
- g) AAS "LKB LIFE" (IJSC);
- h) SIA "LKB Collect"(Ltd);
- i) AS IBS "Renesource Capital"(JSC).

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. The Bank is exposed to credit risk when it operates, that mediator word of clients. Credit risk is managed within the Bank's risk management procedures.

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. The Bank is subjected to credit risks, which arise from the liability to issue additional credits and from the issued guarantees, which is to display in the off-balance.

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 an integrant 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 related to the inability 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 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 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 Bank, influenced by changes in interest rates, currency exchange rates and changes in commodity and share prices. The Bank'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 and interest rate risk management defined in the Bank's Risk management policy. The limits restricting those Risks are being controlled and evaluated 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 "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 the Bank was introduced the system for the operational risk identification.

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 (31.03.2010.)

Ratings assigned by Fitch Ratings

On 8 April 2009 rating agency *Fitch Ratings* withdrew the ratings on Latvijas Krājbanka at the Bank's request following the suspension of Bank's cooperation with the agency.

The above-mentioned information is published on the *Fitch Ratings* web site www.fitchratings.com.

Ratings assigned by Moody's Investors Service

On 16 April 2009 rating agency *Moody's Investors Service* withdrew the ratings on Latvijas Krājbanka at the Bank's request following the suspension of Bank's cooperation with the agency

The above-mentioned information is published on the *Moody's Investors Service* web site www.moodys.com

Ratings assigned by Standard&Poor's

On 31 March 2009 rating agency *Standard&Poor's* withdrew the ratings on Latvijas Krājbanka at the Bank's request following the suspension of Bank's cooperation with the agency.

The above-mentioned information is published on the Standard & Poor's web site 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 (31.03.2010 and 31.03.2009).

Profit and loss statement 31 March 2010

EUR '000	Group	Group	Bank	Bank
	31.03.2010 (unaudited)	31.03.2009 (unaudited)	31.03.2010 (unaudited)	31.03.2009 (unaudited)
Interest revenue	8,873	12,714	8,846	11,508
Interest expense	(9,990)	(8,231)	(10,071)	(8,050)
Net interest income	(1,117)	4,483	(1,225)	3,458
Commission and fee revenue	3,978	3,151	3,911	3,004
Commission and fee expense	(1,448)	(727)	(1,622)	(722)
Net commission and fee income	2,530	2,424	2,289	2,282
Dividend	-	-	-	-
Profit on sale of securities and foreign exchange trading and revaluation	1,538	3,859	1,417	3,971
Other operating income	997	1,299	790	1,040
Operating income	3,948	12,065	3,271	10,751
Personnel expense	(3,640)	(4,372)	(3,256)	(4,027)
Depreciation and amortisation expense	(679)	(813)	(650)	(737)
Other operating expenses	(3,524)	(5,194)	(3,228)	(3,525)
Total operating expenses	(7,843)	(10,379)	(7,134)	(8,289)
Impairment losses	(112)	(5,067)	(112)	(1,106)
Profit/(loss) before corporate income tax	(4,007)	(3,381)	(3,975)	1,356
Corporate income tax	(30)	(203)	(7)	(189)
Profit/(loss) for the reporting year	(4,037)	(3,584)	(3,982)	1,167
Attributable to:				
Shareholders of the Bank	(4,037)	(1,458)	(3,982)	1,167
Minority interest	-	(2,126)	-	-
Basic earnings per share (in euro per share)	(0,209)	(0,12)		
Diluted earnings per share (in euro per share)				

Statement of Comprehensive Income

EUR '000	Group	Group	Bank	Bank
	31.03.2010 (unaudited)	31.03.2009 (unaudited)	31.03.2010 (unaudited)	31.03.2009 (unaudited)
(Loss)/ profit for the reporting year	(4,037)	(3,584)	(3,982)	1,167
Foreign currency revaluation reserve	-	-	-	-
Change of revaluation reserve	-	-	-	-
Income tax	-	-	-	-
Net change of revaluation reserve	-	-	-	-
Non-controlling interest of subsidiaries acquired	-	-	-	-
Non-controlling interest of subsidiaries sold	-	-	-	-
Prior year profit of subsidiaries sold	-	-	-	-
Other comprehensive (loss) for the period, net of taxes	-	-	-	-
Total comprehensive income for the reporting period	(4,037)	(3,584)	(3,982)	1,167
Attributable to:				
Shareholders of the Bank	(4,037)	(1,458)	(3,982)	1,167
Minority interest	-	(2,126)	-	-

Balance sheets

31 March 2010

EUR '000	Group 31.03.2010 (unaudited)	Group 31.12.2009 (audited)	Bank 31.03.2010 (unaudited)	Bank 31.12.2009 (audited)
Assets				
Cash and deposits with the central bank	131,160	63,079	131,160	63,079
Balances due from credit institutions and the central bank	155,301	145,793	154,545	145,473
Loans and advances to customers	512,154	513,701	522,858	524,204
Financial assets at fair value through profit or loss	5,301	8,140	4,342	7,839
Financial assets held for trading	107	220	107	220
Available –for-sale financial assets	-	-	-	-
Held-to-maturity investments	24,066	16,258	24,044	15,805
Investment properties	3,023	1,640	1,641	1,640
Held-for-sale assets	6,083	6,083	6,083	6,083
Investments in subsidiaries	-	-	6,150	6,150
Intangible assets	2,116	2,187	1,629	1,695
Fixed assets	27,578	27,799	27,090	27,480
Prepayments and accrued income	2,085	1,020	2,059	999
Corporate income tax claims	1,286	980	1,225	980
Other assets	26,363	19,607	17,780	9,256
Total assets	896,623	806,507	900,713	810,903
Liabilities				
Balances due to the central bank and credit institutions	1,265	23,379	1,265	23,379
Deposits from the customers	792,975	677,507	798,854	683,573
Derivative liabilities	57	244	57	244
Debt securities issued	-	5,045	-	5,045
Deferred income and accrued expenses	2,433	2,092	2,263	1,959
Provisions for off-balance sheet commitments	-	-	1,283	1,283
Corporate income tax liability	85	64	-	-
Deferred tax liability	1,205	1,205	1,205	1,205
Other liabilities	9,965	4,975	6,460	1,586
Subordinated debt	22,279	21,600	22,279	21,600
Total liabilities	830,264	736,111	833,666	739,874
Shareholders' equity				
Paid-in share capital	27,496	27,496	27,496	27,496
Share premium	22,605	22,605	22,605	22,605
Reserve capital and other reserves	891	891	891	891
Revaluation reserve	6,783	6,783	6,783	6,783
Foreign currency translation reserve	-	-	-	-
Retained earnings	8,577	12,614	9,272	13,254
Total shareholders' equity	66,352	70,389	67,047	71,029
Minority interest	7	7	-	-
Total shareholders' equity	66,359	70,396	67,047	71,029
Total liabilities and shareholders' equity	896,623	806,507	900,713	810,903

Statement of changes in shareholder's equity

Attributable to equity holders of the parent

Group EUR '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluati on reserve	Foreign currency translation reserve	Retained earnings	Minority interest	Total equity
Balance as at 01 January 2009	17,287	17,501	891	7,632	(458)	15,367	943	59,163
Profit for the period	-	-	-	-	-	(3,584)	-	(3,584)
Comprehensive income/loss	-	-	-	-	-	-	-	-
Total comprehensive income/loss	-	-	-	-	-	(3,584)	-	(3,584)
Dividends paid	-	-	-	-	-	(1)	-	(1)
Balance as at 31 March 2009 (unaudited)	17,287	17,501	891	7,632	(458)	11,782	943	55,578
Balance as at 01 January 2010	27,496	22,605	891	6,783	-	12,614	7	70,396
(Loss)/profit for the period	-	-	-	-	-	(4,037)	-	(4,037)
Other comprehensive income/loss	-	-	-	-	-	-	-	-
Total comprehensive income/loss	-	-	-	-	-	(4,037)	-	(4,037)
Dividends paid	-	-	-	-	-	-	-	-
Balance as at 31 March 2010 (unaudited)	27,496	22,605	891	6,783	-	8,577	7	66,359

Group EUR '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluati on reserve	Retained earnings	Total equity
Balance as at 01 January 2009	17,287	17,501	891	7,632	16,069	59,380
Profit for the period	-	-	-	-	1,167	1,167
Comprehensive income/loss	-	-	-	-	-	-
Total comprehensive income/loss	-	-	-	-	1,167	1,167
Dividends paid	-	-	-	-	(1)	(1)
Balance as at 31 March 2009 (unaudited)	17,287	17,501	891	7,632	17,235	60,546
Balance as at 01 January 2010	27,496	22,605	891	6,783	13,254	71,029
(Loss)/profit for the period	-	-	-	-	(3,982)	(3,982)
Other comprehensive income/loss	-	-	-	-	-	-
Total comprehensive income/loss	-	-	-	-	(3,982)	(3,982)
Dividends paid	-	-	-	-	-	-
Balance as at 31 March 2010 (unaudited)	27,496	22,605	891	6,783	9,272	67,047

During the Year 2009, the Bank paid dividends for preferred shares in the amount of EUR 0.347 per share.

The capital adequacy ratio of the Bank as of 31 March 2010 amounts to 11.09%.

Cash flow statement

EUR '000	Group	Group	Bank	Bank
	31.03.2010 (unaudited)	31.03.2009 (unaudited)	31.03.2010 (unaudited)	31.03.2009 (unaudited)
Cash flow from operating activities				
(Loss)/ profit before corporate income tax	(4,007)	(3,381)	(3,975)	1,356
Depreciation and amortization	679	814	650	737
Increase in impairment losses	112	5,067	112	1,106
(Gain)/loss on revaluation of foreign currency	(4,570)	(216)	(4,535)	(353)
(Gain)/loss on revaluation of investments	(447)	(46)	(447)	(23)
Loss on revaluation of fixed assets	-	-	-	-
(Gain)/loss from disposal assets	-	-	-	-
(Gain)/loss from disposals of fixed and intangible assets	(1)	-	(1)	-
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	(8,234)	2,238	(8,196)	2,823
Decrease/(increase) in balances due from the central bank and credit institutions	10,269	10,670	10,868	9,313
(Increase)/decrease in loans and advances to customers	1,659	(6,082)	1,459	(7,967)
Decrease/(increase) in financial assets at fair value through profit or loss	3,155	(53)	3,812	636
Increase/(decrease) in financial assets held for trading	(107)	9	(107)	-
Increase/(decrease) in held-to-maturity investments	-	-	-	-
(Increase)/ decrease in prepayments and accrued income	(1,064)	(94)	(1,060)	(83)
(Increase)/decrease in other assets	(8,496)	(10,457)	(8,781)	(9,204)
(Decrease)/increase in balances due to the central bank and credit institutions	14	(1,489)	14	(31)
(Decrease)/increase in deposits from customers	115,467	(166,543)	115,281	(166,216)
Net (increase)/decrease in derivative instruments	(57)	(1,234)	(57)	(1,234)
(Decrease)/increase in debt securities issued	(5,045)	(100)	(5,045)	(100)
Increase/(decrease) in deferred income and accrued expenses	410	514	306	229
(Decrease)/increase in other liabilities	4,991	2,389	4,875	1,618
Cash generated from operating activities before corporate income tax	112,962	(170,232)	113,369	(170,216)
Corporate income tax paid	(30)	(14)	-	-
Net cash flow from operating activities	112,932	(170,246)	113,369	(170,216)
Cash flow from investing activities				
Purchase of fixed and intangible assets	(426)	(417)	(213)	(385)
Proceeds from disposal of fixed and intangible assets	41	33	20	33
Investments in associates subsidiaries, net	-	-	-	-
(Purchase) in held-to-maturity investments	(10,777)	(271)	(11,207)	(567)
Proceeds from held-to-maturity investments	2,968	11,414	2,968	11,414
Net cash flow from investing activities	(8,194)	10,759	(8,432)	10,495
Cash flow from financing activities				
Issue of shares	-	-	-	-
Share premium	-	-	-	-
Dividends paid	-	(1)	-	(1)
Cash proceeds from issuing shares to Non-controlling investors in subsidiary	-	-	-	-
Proceeds from issue of subordinated debt	205	-	205	-
Net cash flow financing activities	205	(1)	205	(1)
Net cash flow for the period	104,943	(159,488)	105,142	(159,722)
Cash and cash equivalents at the beginning of the year	175,030	343,900	174,712	343,419
Profit/(loss) from revaluation of foreign currency	5,044	766	5,008	902
Cash and cash equivalents at the end of the year	285,017	185,178	284,862	184,599

Cash flows from interest and dividends:

EUR '000	Group	Group	Bank	Bank
	31.03.2010 (unaudited)	31.03.2009 (unaudited)	31.03.2010 (unaudited)	31.03.2009 (unaudited)
Interest paid	(1,053)	(801)	(972)	(982)
Interest received	(1,154)	6,632	(1,181)	5,285
Dividends received				

AS "LATVIJAS
KRĀJBANKA"
Organization chart
(valid from 03.05.2010)

