

# **AS Latvijas Krājbanka**

## **Interim Condensed Consolidated and Separate Financial Statements**

**for the six-month period  
ended 30 June 2010**

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## **Management report**

### **Financial data**

During the first six months of 2010 the Latvian commercial banking sector still sustained loss amounting to more than LVL 200 million. During the reporting period, there was a downward trend of the loss observed in the sector, and the total loss amount was lower than in the corresponding period of 2009.

The Bank ended the six-month period ended 30 June 2010 with an increase in Net retained earnings totalling LVL 60 thousand. The amount of decrease in net retained earnings for the Latvijas Krājbanka Group (hereinafter referred to as the Group) was LVL 4.6 million, the total amount of the Bank's assets as at 30 June 2010 was LVL 603 million (the Group – LVL 599 million). Over the first half of the year, the assets grew by more than LVL 30 million, chiefly owing to the increase of local non-banking deposits.

The effective risk management, appropriate risk assessment, and constant business control – these are the main conditions ensuring the optimal balance between the risk tolerance level and the Bank's compliance with the certain risk profile and its ability to earn the projected revenue. Considering the situation on the Latvian credit market, the Bank continued adhering to the cautious lending policy, by carefully evaluating industry, return and risk indices for each loan, as well as maintained a high capital adequacy level, which was 11-12% during the reporting period (while the statutory rate is 8%). The Bank's liquidity over the period remained on the average industry level of 55-75% (while the statutory rate is 30%). As at 30 June 2010, the Bank's capital adequacy and liquidity ratios were 11.3% and 57.7% respectively.

Latvijas Krājbanka retains stable positions in the Latvian commercial banking sector by the key bank performance indices. In June 2010, the Bank ranked fifth in terms of deposits from customers, and ninth in terms of loans and assets. Customers throughout Latvia continued to show their strong loyalty to Latvijas Krājbanka, and during the first six months of 2010 the total amount of deposits from private individuals grew by LVL 13.9 million. As regards deposits from private individuals, Latvijas Krājbanka remained third among local commercial banks.

### **Major news for the Bank's products and services**

Latvijas Krājbanka continued realising its strategic goals. The Bank retained its first place among Latvian commercial banks by the number of customer service centres. As at 30 June 2010, Latvijas Krājbanka was represented by 113 customer service centres throughout Latvia, of which 33 were mini banks. By the end of June 2010, the Bank had 197 ATMs, thus ranking third on the market among Latvian commercial banks.

In early January, the Bank joined a single principle system of transferring current accounts of private individuals, developed by the Association of Latvian Commercial Banks. Private individuals can now transfer all services correlated with their current account (Direct Debits, Standing Orders) located in their current bank and transfer them into a new bank. Thus Latvijas Krājbanka provides a simple, convenient and fast possibility for private individuals to change current accounts.

In May, the Bank started offering Latvian municipalities a possibility to simplify considerably the single allowance payment system for private individuals by issuing Social Cards. The Social Card is a new product of the Bank, developed specially for the needs of municipal social services. It is as simple and easy to use as the bank's payment card, yet at the same time it provides a possibility to control and verify the conformity of using the social allowance to its intended purposes, for instance, for acquisition of primary commodities. Municipalities may define the territory and trading places, in which the card can be used. With regard to the use of funds available on the card, the municipal social service receives regular reports on the points of trading place and amounts spent by the cardholder. This makes the card an efficient tool in controlling and monitoring cash flow for social service authorities.

At the end of May, Krājbanka started offering new product packages – a *Businessman Kit* for self-employed individuals and a *Starter Kit* for legal entities. Both new packages contain a bank account, a corresponding card (Classic Card MasterCard Mass or Classic card VISA Business), Online banking, and a code card or code calculator. Legal entities will also receive an e-signature sample for secure enterprise management, as well as for a possibility to perform other banking transactions at any customer service centre of Latvijas Krājbanka and, if necessary, a chequebook for trouble-free accounting.

In 2010, the Bank has begun and continues working to improve the reliability of Chip-Cards, changing Chip terminals and introducing changes to the standard for determining commission for merchants of VISA and MasterCard.

The Bank continues its work on improving the functionality of Online Banking and is introducing new services to improve customer convenience. Since early April, users of Online Banking have had the opportunity to issue Direct debit orders. The first supplier to offer automatic payment of bills using this system was AS Latvenergo. Cooperation with such partners will be expanded.

Since June, users of Online Banking have had the opportunity to place orders for the purchase and sale of Latvijas Krājbanka investment funds. Meanwhile, customers of Latvijas Krājbanka who are subject to the residence declaration requirement can now do it electronically, using the State Regional Development Agency portal [www.latvija.lv](http://www.latvija.lv) - an identification system for users of Online Banking. Also in the first half of 2010, users of Online Banking have been given the opportunity, after attaining identification within the web portal [www.epakalpojumi.lv](http://www.epakalpojumi.lv), to receive notices about making real estate tax payments electronically, by registering their e-mail address. Furthermore Online Bank customers have had access to new e-services, such as mansLMT, CoolTaxi, and BTA.

The quality of services provided by the Bank is affirmed by the prestigious "Deutsche Bank's STP Excellence Award", which the Bank has received for the fourth consecutive year. Deutsche Bank has appreciated the quality of processing of payments by Latvijas Krājbanka, and further acknowledged the professionalism of its employees, as well as the quality of banking technology for automatic execution of payments. This year, for the third consecutive time already, the Bank was honoured with the special appraisal of quality of payment processing made in USD. Meanwhile, in 2006, the prize was awarded to Latvijas Krājbanka for the quality of payment processing made in EUR.

### **Performance of the Bank and Group Companies**

The share capital of Latvijas Krājbanka at the end of June 2010 amounted to LVL 19 324 248, consisting of 19 321 414 ordinary bearer shares with voting rights and 2 834 „A” category preference shares without voting rights. The par value of a share is LVL 1.

The ordinary shareholders' meeting of Latvijas Krājbanka, which took place at the end of March, decided to increase the share capital of the Bank by LVL 6.5 million up to LVL 25 824 248, by issuing ordinary bearer shares with voting rights. It is planned to complete the issue of new shares at the end of September 2010.

## AS LATVIJAS KRĀJBANKA MANAGEMENT REPORT

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On 29 January 2010, pursuant to the provisions of the CA Series Mortgage Bonds Prospectus of the Bank, the issue of CA series mortgage bonds amounting to EUR 5 million was redeemed. This was the first issue of Krājbanka bonds, which was placed in January 2007. Both Latvian and foreign investors showed interest in the issue and bought the entire volume of mortgage bonds.

At the beginning of February, the first foreign representative office of Krājbanka was registered. It is located in London. The office represents the Bank, its subsidiaries and the services provided by the Group. The office investigates opportunities of the financial, investment and business environment. In addition, the office will develop relationships with the correspondent banks.

At the end of the first quarter of 2010, there was a change in the shareholders structure of the Bank. AB Bankas Snoras increased its interest in the share capital of Krājbanka from 53.22% to 85.07% by acquiring 6 175 thousand voting shares from the Council Member V. Antonovs.

While implementing a strategy for the optimisation and development of investment services offered by the Snoras Group in the markets of Lithuania and Latvia, during the first six months of 2010 Krājbanka signed agreements with Finasta Holding and AB Bankas Finasta on the sale of the shares owned by Latvijas Krājbanka in AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi (hereinafter referred to as LKB Krājfondi), AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, AS Pirmais atklātais pensiju fonds, and AS IBS Renesource Capital. At the date of signing these financial statements, the Bank no longer held shares in AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, and AS Pirmais atklātais pensiju fonds. These changes will not affect the Bank's obligations, and the agreements signed with the customers and their provisions will remain in force; however, the management of investment assets will be provided by the investment group Finasta Holding.

In late May, Latvijas Krājbanka established several new subsidiaries to carry out management and administration of real estate - SIA LKB Rīgas īpašumi, SIA LKB Property, SIA Jēkaba 2, and SIA Brīvības 38. The companies were established in order to optimise the activities of Krājbanka by segregating the assets that are not related to the Bank's core business operations. Thereafter the properties owned by Krājbanka were invested in the share capital of the said companies.

The Group companies continued developing their activity.

As at 30 June 2010, the number of pension plan customers of a Group company AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi (an asset management company) had reached 79 462, but the total 2<sup>nd</sup> tier state funded pension plan assets managed by LKB Krājfondi reached LVL 41 million (+ 9.6% over six months). LKB Krājfondi ranks fourth in Latvia by the number of the participants in the 2<sup>nd</sup> tier pension plan. By the end of the first half of the year, the total asset amount managed by LKB Krājfondi, including investment funds, 3<sup>rd</sup> tier assets and individual investment portfolios, amounted to LVL 44.5 million. LKB Krājfondi ended the first six months of 2010 with a profit of LVL 151 thousand (preliminary data). The return on the 2<sup>nd</sup> tier pension plans managed by LKB Krājfondi was within the range from +6.21% to +6.48% (after commission fees), which is one of the best results in the industry.

During the first six months of 2010, the Bank continued developing the offer of insurance services to the customers. A new long-term collaboration agreement concluded with AAS BTA has made it possible to offer various new insurance services to the customers. The insurance joint stock company LKB Life (hereinafter referred to as LKB Life) continued implementing the long-term development programme. The prices and regulations of the insurance products offered by LKB Life were revised, adapting them to the current market demand. The essential achievement is that a completely new and unique accumulative insurance product on the Latvian market - "Complex life insurance" - was developed, which unites accumulation of savings with the best features of several insurance products - life insurance, health insurance, accident insurance, insurance against critical diseases. The sale of this product has been launched in the network of branches of Latvijas Krājbanka, and by virtue of insurance brokers and telemarketing companies. Both private individuals and legal entities can purchase complex life insurance. In terms of gross written premiums, LKB Life has shown a 54% increase against the 40% premium decline last year. The number of customers - private individuals and legal entities - has also grown. During the first six months of 2010, if compared to the corresponding period of 2009, there were concluded 17 times more new agreements. Until the end of the year, the company is planning to introduce several new and unprecedented insurance products on the Latvian market.

During the first six months of 2010, AS Pirmais atklātais pensiju fonds managed more than LVL 600 thousand assets. All the pension plans - *Saule-Sabalansētais* (Sun-Balanced), *Vecumdienas* (Old age), *Jūra-aktīvais* (Sea-Active), *Baltikums-Universālais* (Baltikums-Universal), and *Privātā pensija* (Private pension) - reported highest returns in the industry, i.e. + 8.01%, + 8.37%, + 4.27%, + 4.47%, and + 6.59% since inception respectively. The number of the participants of *Papildpensija* (Additional Pension Capital) has grown up to 2 018.

During the first six months of 2010, SIA Krājinvestīcijas has sustained a loss of LVL 228 894. In 2010, the company is planning to expand its business and participate in other real estate development projects as well as widen the range of services supplied to the Group's companies.

The loan portfolio of SIA LKB Lizings as at 30 June 2010 totalled LVL 18 240 thousand, which is a 8.35% decrease against 30 June 2009. Currently the company is focusing on improvement of the payment discipline, debt recovery and realisation of leased items taken over from customers as well as working on the improvement on its internal processes and development of the programme "Lease manager". In the last quarter of 2010, the company is planning to increase the amount of funding granted.

All the Bank's transactions with related parties are made according to the normal rates applied to ordinary customers and are monitored according to the procedures developed under the internal control system and other regulations governing these transactions.

### Public activities

Considering the Bank's big network of customer service centres, it has set a goal to pay special attention to the customers not only in the capital city, but also throughout Latvia. It refers to both the development of Bank's business services and the support of social and cultural life. In 2010, the Bank continued supporting different cultural events and has even started new traditions.

At the beginning of March, Krājbanka participated in the e-skill week organised by the European Union and offered all interested a possibility to learn about Online banking functions under the lead of special Bank consultants in 28 customer service centres throughout Latvia. Within the campaign the Bank has expanded the range of customers using Online banking for money flow operations, meanwhile introducing new possibilities and recent improvements of Online banking to the existing users.

Using the experience of a Great friend (Liieldraugs) of the Overall Song and Dance Celebration, Latvijas Krājbanka supported Latgale Song Celebration that took place during the first weekend of June in Daugavpils. This Celebration has both cultural and historical meaning, as well as it takes a special place in the further strategic development of the region.

Krājbanka has adhered to the traditions and supported director's Indra Roga new production of the play "Skroderdienas Silmačos" at the Latvian National Theatre. The performance received huge public response and earned sympathies from the audience.

Last year the Bank started cooperating with the Latvian Independent Television (LNT) making the show *Dziedošās ģimenes* (Singing Families), which is continued this year as well. On the last Sunday before Ligo feast - June 20<sup>th</sup> - Latvijas Krājbanka in collaboration with LNT invited families from the whole Latvia to Open-air museum to experience an unprecedented event - to participate in creation of the biggest Ligo wreath in Latvia. More than 8500 people from the whole Latvia attended the event, but TV viewers could watch the event

## **AS LATVIJAS KRĀJBANKA MANAGEMENT REPORT**

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during the whole day in live broadcasts of LNT. Several tens of volunteers and approximately 1200 visitors participated in the creation of the wreath, the total length of which amounted to 100 m.  
In response to the invitation of the Latvian Children's Fund, the Bank supported the camp for children with special needs organised by the Fund in summer 2010.

The long-term presence of Latvijas Krājbanka on the Latvian market, its ability to quickly overcome the external economic and financial shocks, its active public activities and participation in cultural and social processes important for the state and people – all these factors allowed achieving strong customer confidence in the Bank's brand. Keeping in line with Latvia's development and needs of the Bank's customers will remain one of the Bank's key values forming the basis for further development of the Bank.

We would like to thank the Bank's customers and cooperation partners for our successful cooperation during the period, which we hope will be continued also in the future. Wishing you every success in your business!

Yours sincerely,

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Raimondas Baranauskas  
Chairman of the Council

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Ivars Prieditis  
Chairman of the Board

Riga,  
31. August 2010

**AS LATVIJAS KRĀJBANKA  
COUNCIL AND BOARD OF THE BANK**

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**As at 30 June 2010, the Members of the Council of the Bank were as follows:**

***Council of the Bank***

<b><i>Name, surname</i></b>	<b><i>Position</i></b>	<b><i>Date of appointment\ reappointment</i></b>
Raimondas Baranauskas	Chairman of the Council	28/10/2005 \ 26/03/2010
Aleksandrs Antonovs	Deputy Chairman of the Council	28/10/2005 \ 26/03/2010
Naglis Stancikas	Member of the Council	28/10/2005 \ 26/03/2010
Oļegs Suhorukovs	Member of the Council	28/10/2005 \ 26/03/2010
Vladimirs Antonovs	Member of the Council	07/09/2009 \ 26/03/2010

On 26 March 2010, the ordinary shareholders' meeting of AS Latvijas Krājbanka resolved to make changes in the Council. The new Council is elected for a period of three years and its term of office begins on 26 March 2010. The new Council consists of the following re-elected members: Raimondas Baranauskas, Vladimirs Antonovs, Aleksandrs Antonovs, Oļegs Suhorukovs, and Naglis Stancikas.

There have been no other changes in the Council from 26 March 2010 until the date of signing these financial statements.

**As at 30 June 2010, the Members of the Board of the Bank were as follows:**

***Board of the Bank***

<b><i>Name, surname</i></b>	<b><i>Position</i></b>	<b><i>Date of appointment\ reappointment</i></b>
Ivars Priedītis	Chairman of the Board/ President	18/07/2007 \ 18/07/2010
Dzintars Pelbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006 \ 03/01/2009
Svetlana Ovčinnikova	Member of the Board	19/06/2006 \ 20/06/2009
Andrejs Surmačš	Member of the Board	28/10/2005 \ 24/10/2008

Based on the decision of the Council of AS Latvijas Krājbanka, starting from 17 August 2009 the Board Member Ivars Priedītis has been performing the functions of the Chairman of the Board.

According to the decision of the Bank's Council, dated 7 July 2010, Ivars Priedītis was elected as Chairman of the Board for the next term of office starting from 18 July 2010.

There have been no other changes in the Board from 1 January 2010 until the date of signing these financial statements.

Appointment and dismissal of the Board Members can be made in accordance with the Commercial Law and the Articles of Association of the Bank. The Council has a right to appoint and dismiss the Board Members. The Board Members are elected for a three-year period and the Council elects the Chairman of the Board (President) and the First Deputy Chairman of the Board (First Vice President) from among the Board Members.

The Board manages the Bank in accordance with the laws of the Republic of Latvia, the Articles of Association and the decisions of the shareholders' meeting. The Council approval is necessary for certain Board's decisions, which refers to the approval of business principles and policies, budget and operating plan, documents governing the lending policy, remuneration of internal auditors, assigning the loan categories specified in the Bank's statutory documents as well as share capital increases following the procedure laid down in Clause 5.16 of the Articles of Association.

According to the Commercial Law, only the shareholders' meeting is competent to decide on issue and repurchase of the Bank's shares. As it is provided in Clause 5.16 of the Articles of Association, the Board will be authorised to decide on the increase of the Bank's share capital by an amount not exceeding LVL 3'900'000 (three million nine hundred thousand lats) until 1 September 2014. In the event of an increase of the share capital according to the procedure laid down in Clause 5.16 of the Articles of Association, the new share issue will be paid only in cash no later than three months from the date of the respective Board's decision.

**AS LATVIJAS KRĀJBANKA**  
**STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT**

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The Management of AS Latvijas Krājbanka (hereinafter – the Bank) 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 30 June 2010 and 31 December 2009, and results of their operations, changes in the shareholders' equity and cash flows for the six-month periods ended 30 June 2010 and 30 June 2009.

The financial statements set out on pages 8 to 28 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 30 June 2010.

Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments 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.

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Raimondas Baranauskas  
Chairman of the Council

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Ivars Priedītis  
Chairman of the Board

Rīga,  
31. August 2010

**AS LATVIJAS KRĀJBANKA**  
**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF**  
**COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

LVL '000	Notes	Group 30/06/2010	Group 30/06/2009	Bank 30/06/2010	Bank 30/06/2009
Interest revenue	3	12,926	18,298	12,932	16,672
Interest expense		(12,981)	(11,740)	(13,088)	(11,490)
<b>Net interest revenue</b>		<b>(55)</b>	<b>6,558</b>	<b>(156)</b>	<b>5,182</b>
Commission and fee revenue		4,554	3,674	4,761	3,643
Commission and fee expense		(1,722)	(1,101)	(1,892)	(1,095)
<b>Net commission and fee revenue</b>		<b>2,832</b>	<b>2,573</b>	<b>2,869</b>	<b>2,548</b>
Dividends		3	-	3	-
Net result on sale of securities and foreign exchange trading and revaluation	4	1,726	5,387	1,694	5,383
Other operating revenue		742	608	471	452
<b>Operating revenue</b>		<b>5,248</b>	<b>15,126</b>	<b>4,881</b>	<b>13,565</b>
Personnel expense		(5,014)	(5,991)	(4,658)	(5,578)
Depreciation and amortisation expense		(944)	(1,140)	(888)	(1,037)
Other operating expense		(5,401)	(5,335)	(5,164)	(5,067)
<b>Total operating expense</b>		<b>(11,359)</b>	<b>(12,466)</b>	<b>(10,710)</b>	<b>(11,682)</b>
Financial asset impairment Income/ (loss)	5	1,596	(5,645)	1,586	(3,581)
Impairment of other assets		(777)	-	(816)	-
<b>Loss before corporate income tax</b>		<b>(5,292)</b>	<b>(2,985)</b>	<b>(5,059)</b>	<b>(1,698)</b>
Corporate income tax		132	13	636	17
<b>Loss for the reporting period from continuing operations</b>		<b>(5,160)</b>	<b>(2,972)</b>	<b>(4,423)</b>	<b>(1,681)</b>
Profit/ (loss) after tax for the reporting period from discontinued operations	8	61	59	(97)	-
<b>Loss for the reporting period</b>		<b>(5,099)</b>	<b>(2,913)</b>	<b>(4,520)</b>	<b>(1,681)</b>
Foreign currency revaluation reserve		-	(6)	-	-
Net change of the revaluation reserve		465	(582)	-	(582)
<b>Total comprehensive (loss)</b>		<b>(4,634)</b>	<b>(3,501)</b>	<b>(4,520)</b>	<b>(2,263)</b>
<i>Attributable to:</i>					
Shareholders of the Bank		(4,634)	(3,281)	(4,520)	(2,263)
Non-controlling interests		-	(220)	-	-
Transferred revaluation reserve to retained earnings	6	-	-	4 580	-
<b>Net increase in retained earnings</b>		<b>(4,634)</b>	<b>(3,501)</b>	<b>60</b>	<b>(2,263)</b>
Basic earnings per share (Lats per share)		(0,264)	(0,240)	-	-
Diluted earnings per share (Lats per share)	7	(0,216)	(0,175)	-	-

The accompanying notes on pages 13 to 28 form an integral part of these financial statements.



**AS LATVIJAS KRĀJBANKA**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2010**

LVL '000	Notes	Group 30/06/2010	Group 31/12/2009	Bank 30/06/2010	Bank 31/12/2009
<b>Assets</b>					
Cash and demand deposits with central banks	9	88,613	44,332	88,612	44,332
Due from credit institutions		91,987	102,464	91,441	102,239
Financial assets held for trading		66	-	66	-
Financial assets at fair value through profit or loss		3,419	5,721	3,419	5,509
Loans and advances to customers	10	361,228	361,186	368,087	368,568
Held-to-maturity investments		14,232	11,426	14,216	11,108
Investment properties		1,153	1,153	1,153	1,153
Assets classified as held for sale	8	4,456	4,275	4,954	4,275
Investments in subsidiaries	11	-	-	16,064	4,322
Intangible assets		1,483	1,537	1,163	1,191
Tangible assets	12	18,428	19,537	7,066	19,313
Prepayments and accrued income		581	717	562	702
Corporate income tax receivable		863	689	862	689
Other assets		12,407	13,731	5,076	6,505
<b>Total assets</b>		<b>598,916</b>	<b>566,768</b>	<b>602,741</b>	<b>569,906</b>
<b>Liabilities</b>					
Due to credit institutions	13	303	16,431	303	16,431
Deposits from customers	14	533,512	476,155	537,014	480,418
Derivatives		2	172	2	172
Debt securities issued	18	-	3,546	-	3,546
Deferred income and accrued expense		1,603	1,422	1,556	1,376
Provisions for off-balance sheet commitments		-	-	467	902
Corporate income tax liability		-	45	-	-
Deferred tax liability		211	847	211	847
Other liabilities		2,166	3,496	1,590	1,115
Subordinated debt		16,200	15,181	16,200	15,181
Liabilities associated with the assets held for sale		80	-	-	-
<b>Total liabilities</b>		<b>554,077</b>	<b>517,295</b>	<b>557,343</b>	<b>519,988</b>
<b>Equity</b>					
Paid-in share capital	15	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		5,232	4,767	187	4,767
Retained earnings		3,765	8,864	9,374	9,314
<b>Total equity attributable to equity holders</b>		<b>44,834</b>	<b>49,468</b>	<b>45,398</b>	<b>49,918</b>
<b>Non-controlling interests</b>		<b>5</b>	<b>5</b>	<b>-</b>	<b>-</b>
<b>Total shareholders' equity</b>		<b>44,839</b>	<b>49,473</b>	<b>45,398</b>	<b>49,918</b>
<b>Total liabilities and shareholders' equity</b>		<b>598,916</b>	<b>566,768</b>	<b>602,741</b>	<b>569,906</b>

The accompanying notes on pages 13 to 28 form an integral part of these financial statements.

**AS LATVIJAS KRĀJBANKA**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

<b>Group LVL '000</b>	<b>Paid-in share capital</b>	<b>Share premium</b>	<b>Reserve capital and other reserves</b>	<b>Revaluation reserve</b>	<b>Foreign currency translation reserve</b>	<b>Retained earnings</b>	<b>Non- controlling interests</b>	<b>Total equity</b>
<b>Balance as at 1 January 2009</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>5,364</b>	<b>(322)</b>	<b>10,800</b>	<b>663</b>	<b>41,580</b>
Loss for the period	-	-	-	-	-	(2,696)	(217)	(2,913)
Other comprehensive expense	-	-	-	(582)	(3)	-	(3)	(588)
Total comprehensive expense	-	-	-	(582)	(3)	(2,696)	(220)	(3,501)
Dividends paid	-	-	-	-	-	(1)	-	(1)
<b>Balance as at 30 June 2009</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>4,782</b>	<b>(325)</b>	<b>8,103</b>	<b>443</b>	<b>38,078</b>
<b>Balance as at 1 January 2010</b>	<b>19,324</b>	<b>15,887</b>	<b>626</b>	<b>4,767</b>	<b>-</b>	<b>8,864</b>	<b>5</b>	<b>49,473</b>
Loss for the period	-	-	-	-	-	(5,099)	-	(5,099)
Other comprehensive income	-	-	-	465	-	-	-	465
<b>Total comprehensive income/ (expense) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>465</b>	<b>-</b>	<b>(5,099)</b>	<b>-</b>	<b>(4,634)</b>
<b>Balance as at 30 June 2010</b>	<b>19,324</b>	<b>15,887</b>	<b>626</b>	<b>5,232</b>	<b>-</b>	<b>3,765</b>	<b>5</b>	<b>44,839</b>

<b>Bank LVL '000</b>	<b>Paid-in share capital</b>	<b>Share premium</b>	<b>Reserve capital and other reserves</b>	<b>Revaluation reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance as at 1 January 2009</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>5,364</b>	<b>11,293</b>	<b>41,732</b>
Loss for the period	-	-	-	-	(1,681)	(1,681)
Other comprehensive expense	-	-	-	(582)	-	(582)
Total comprehensive expense	-	-	-	(582)	(1,681)	(2,263)
Dividends paid	-	-	-	-	(1)	(1)
<b>Balance as at 30 June 2009</b>	<b>12,149</b>	<b>12,300</b>	<b>626</b>	<b>4,782</b>	<b>9,611</b>	<b>39,468</b>
<b>Balance as at 1 January 2010</b>	<b>19,324</b>	<b>15,887</b>	<b>626</b>	<b>4,767</b>	<b>9,314</b>	<b>49,918</b>
Loss for the period	-	-	-	-	(4,520)	(4,520)
Other comprehensive income	-	-	-	(4,580)	4,580	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,580)</b>	<b>60</b>	<b>(4,520)</b>
<b>Balance as at 30 June 2010</b>	<b>19,324</b>	<b>15,887</b>	<b>626</b>	<b>187</b>	<b>9,374</b>	<b>45,398</b>

During the first half of 2009, the Bank paid dividends on preferred shares amounting to LVL 0.244 per share.

The accompanying notes on pages 13 to 28 form an integral part of these financial statements.

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**CASH FLOW STATEMENT**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

<b>LVL '000</b>	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 30/06/2009</b>
<b>Cash flows to/ from operating activities</b>				
Loss before corporate income tax	(5,292)	(2,985)	(5,059)	(1,698)
Profit/ (loss) from discontinued operations	61	59	(97)	
Amortisation and depreciation	944	1,140	888	1,037
(Decrease)/ increase in provisions for liabilities and charges	(1,596)	5,645	(1,586)	3,581
(Profit)/ loss on foreign currency translation	(4,549)	1,550	(4,531)	1,555
(Profit)/ loss on revaluation of investments	(461)	112	(461)	120
Loss on impairment of tangible assets	638	80	677	80
Loss/ (gain) from disposal of tangible and intangible assets	1	(1)	1	(1)
<b>(Decrease)/ increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities</b>	<b>(10,254)</b>	<b>5,600</b>	<b>(10,168)</b>	<b>4,674</b>
Decrease in balances due from credit institutions	1,020	14,011	1,452	13,057
Decrease/ (increase) in loans and advances to customers	1,549	(7,346)	1,636	(1,966)
Decrease/ (increase) in financial assets at fair value through profit or loss	2,587	(120)	2,375	590
Increase in financial assets held for trading	(30)	(348)	(30)	(340)
Decrease/ (increase) in available-for-sale financial assets	(180)	1	1	-
Decrease/ (increase) in prepayments and accrued income	136	(210)	140	(198)
Decrease/ (increase) in other assets	1,154	3,918	1,252	(474)
Increase in balances due to credit institutions	(401)	(11,521)	(401)	(10,265)
Increase/ (decrease) in deposits from customers	57,357	(130,012)	56,596	(130,079)
Net (increase)/ decrease in derivatives	(30)	45	(30)	49
Decrease in debt securities issued	-	(42)	-	(42)
Increase in deferred income and accrued expense	181	363	180	105
Increase/ (decrease) in other liabilities	(1,250)	(688)	475	(806)
<b>Net increase in cash and cash equivalents from operating activities</b>	<b>51,839</b>	<b>(126,349)</b>	<b>53,478</b>	<b>(125,695)</b>
Corporate income tax paid	(45)	(5)	-	-
<b>Net increase in cash and cash equivalents</b>	<b>51,794</b>	<b>(126,354)</b>	<b>53,478</b>	<b>(125,695)</b>
<b>Cash flows to/ from investing activities</b>				
(Purchase) of tangible and intangible assets	(480)	(324)	(359)	(312)
Proceeds from sale of tangible and intangible assets	21	18	-	6
Decrease in held-to-maturity securities	5,328	9,597	5,328	9,389
(Purchase) of held-to-maturity securities	(8,134)	-	(8,436)	-
Investments in associates and subsidiaries, net		(200)	(1,354)	(727)
<b>Increase in cash and cash equivalents from investing activities</b>	<b>(3,265)</b>	<b>9,091</b>	<b>(4,821)</b>	<b>8,356</b>
<b>Cash flows to/ from financing activities</b>				
Dividends paid	-	(1)	-	(1)
Repayment of debt securities	(3,546)	-	(3,546)	-
Change in subordinated debt	143	-	143	-
<b>Increase in cash and cash equivalents from financing activities</b>	<b>(3,403)</b>	<b>(1)</b>	<b>(3,403)</b>	<b>(1)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>45,126</b>	<b>(117,264)</b>	<b>45,254</b>	<b>(117,340)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>123,012</b>	<b>241,694</b>	<b>122,788</b>	<b>241,356</b>
Foreign exchange difference	5,425	(1,493)	5,407	(1,492)
<b>Cash and cash equivalents at the end of the period</b>	<b>16</b>	<b>173,563</b>	<b>173,449</b>	<b>122,524</b>

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**CASH FLOW STATEMENT**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

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Cash flows from interest and dividends

<b>LVL '000</b>	<b>Group</b>	<b>Group</b>	<b>Bank</b>	<b>Bank</b>
	<b>30/06/2010</b>	<b>30/06/2009</b>	<b>30/06/2010</b>	<b>30/06/2009</b>
Interest paid	5,843	5,249	5,947	5,046
Interest received	5,849	11,699	5,848	12,113
Dividends	3	-	3	-

In the first half of 2009 the shareholders' meeting of AS Latvijas Krājbanka resolved to pay dividends on preferred shares in the amount of LVL 692 from the audited profit for the year 2008. The remaining part of the profit was transferred for business development.

No dividends were paid in 2010.

The accompanying notes on pages 13 to 28 form an integral part of these financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

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**1. INCORPORATION AND PRINCIPAL ACTIVITIES**

AS Latvijas Krājbanka (hereinafter – the Bank) was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940, it was reorganised and included into the structure of the USSR Savings Bank. Until 1991, the main task of the Bank was to attract financial resources and service them within the framework of the Soviet banking system.

On 3 September 1991, the Supreme Council of the Republic of Latvia decided to re-establish AS Latvijas Krājbanka. AS Latvijas Krājbanka took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a licence to perform banking operations. The Bank was registered with the Enterprise Register of the Republic of Latvia on 16 October 1992 as a state owned commercial bank. On 29 March 1994, the Bank was re-registered as a state joint stock company Latvijas Krājbanka. In accordance with the Order of the Cabinet, dated 18 January 1996, the state joint stock company Latvijas Krājbanka was included into the list of entities to be privatised. During the first phase of the privatisation process in 1997, the Bank was acquired by Rīgas Apvienotā Baltijas banka (Union Baltic Bank in Riga). During the subsequent public offering, the shares of the Bank were purchased by residents of Latvia using privatisation certificates. On 20 September 2005, Snoras, one of the largest commercial banks in Lithuania, purchased an 83.01% shareholding and became the major shareholder of the Bank. The Bank's financial statements are consolidated in the financial statements of the Snoras Group.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed consolidated financial statements for the six-month period ended 30 June 2010 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 December 2009.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2009, except for adoption of new and/or changed IFRSs and presentation of comprehensive income statement in one statement in comparison to two separate statements presented last years.

*a) Basis of preparation*

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2009.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the reporting period:

- Amendment to IFRS 2 Share-based Payment
- Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements
- IFRIC 12 Service Concession Arrangements
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- Amendments to IAS 24 Related Party Disclosures

The main impact of these changes are as follows:

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2010). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009). Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have business combinations.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 29 March 2009). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 31 October 2009). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated and separate financial statements because the Group does not distribute non-cash assets to owners.

IFRIC 18 Transfers of Assets from Customers (effective for financial years beginning on or after 31 October 2009). The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access

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to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated and separate financial statements because the Group/ Bank does not have such agreements.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011, Group have early adopted this Standard). The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments have no impact on the financial position or performance of the Group, however it has altered disclosure on related parties, as noted in Note 17.

Standards and interpretations that have been issued but are not yet effective

The standards and interpretations which have been issued as at the date of these financial statements but is not yet effective and which have not been early adopted by the Group:

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group has not yet evaluated the impact of the implementation of this standard.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010). The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Amendment to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011, once adopted by the EU). The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 April 2010, once adopted by the EU). The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

The accompanying financial statements are reported in thousands of Lats (LVL 000's), unless stated otherwise.

*b) Basis of consolidation*

These consolidated financial statements comprise also separate financial statements of the Bank for the six-month period ended 30 June 2010 and the year ended 31 December 2009 in accordance with legal requirements. Subsidiaries are consolidated from the date on which the control is transferred to the Bank. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the reporting period are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

In preparing the consolidated financial statements, respective items have been evaluated in accordance with the uniform accounting policies and valuation principles applied by the Bank in conformity with the requirements of the Financial and Capital Market Commission and International Financial Reporting Standards as adopted by the European Union. The subsidiaries' financial statements are included in the Group's consolidated financial statements.

Non-controlling interest represents the portion of profit or loss and net assets that is not held by the Group and is presented separately in the consolidated income statement and statement of comprehensive income and under equity in the consolidated statement of financial position, separately from the parent's shareholders' equity.

All items in the Bank's and Group's financial statements have prior year comparatives. Should the difference between information on the Group and that on the Bank be insignificant, such information on the Group is not separately presented, however it is explicitly indicated.

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**3. INTEREST REVENUE AND EXPENSE**

In 2010, interest revenue from loans and advances to customers decreased against the end of 2009, which is chiefly due to the falling loan interest rates. BOR rates to which most of the loan portfolio is pegged continued dropping during 2010. Specifically, the LVL Rigibor benchmark rates plunged in the first half of the year, from 12% to approximately 2% on average. Interest rates for EUR and USD loans also remained extremely low. This tendency was observed throughout the entire banking sector. In addition, a decrease in the loan portfolio was reported in the first half of 2010.

**4. NET RESULT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING AND REVALUATION**

<b>LVL '000</b>	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 30/06/2009</b>
Net result from trading with foreign currency	(3,284)	6,836	(3,298)	6,848
Net result on sale of financial assets valued at fair value	36	213	36	210
<i>financial assets at fair value through profit or loss</i>	27	209	27	209
<i>financial assets held for trading</i>	9	1	9	1
<i>available-for-sale financial assets</i>	-	3	-	-
Net result from revaluation of financial assets	425	(112)	425	(120)
<i>financial assets at fair value through profit or loss</i>	425	(112)	425	(120)
Net result from revaluation of foreign currency positions	4,549	(1,550)	4,531	(1,555)
<b>Total net result on sale of securities and foreign exchange trading and revaluation</b>	<b>1,726</b>	<b>5,387</b>	<b>1,694</b>	<b>5,383</b>

**5. FINANCIAL ASSET IMPAIRMENT INCOME/ (LOSS)**

The analysis of impairment losses for the Bank and the Group is presented as follows:

<b>Group LVL'000</b>	<b>Impairment losses for loans</b>	<b>Other impairment losses</b>	<b>Total</b>
<b>Impairment losses as at 31 December 2008</b>	<b>6,168</b>	<b>176</b>	<b>6,344</b>
Impairment losses	6,069	107	6,176
Reversal of impairment losses	(438)	-	(438)
Recovery of assets previously written-off	(93)	-	(93)
<b>Net charge to the income statement</b>	<b>5,538</b>	<b>107</b>	<b>5,645</b>
Foreign exchange movements	(91)	-	(91)
Net write-offs and recovery of assets accounted in off-balance sheet	(403)	(14)	(417)
<b>Impairment losses as at 30 June 2009</b>	<b>11,212</b>	<b>269</b>	<b>11,481</b>
<b>Impairment losses as at 31 December 2009</b>	<b>12,122</b>	<b>240</b>	<b>12,362</b>
Impairment losses	3,605	4	3,609
Reversal of impairment losses	(5,157)	(9)	(5,166)
Recovery of assets previously written off	(39)	-	(39)
<b>Net charge to the income statement</b>	<b>(1,591)</b>	<b>(5)</b>	<b>(1,596)</b>
Foreign exchange movements	4	1	5
Net write-offs and recovery of assets written down as off-balance sheet items	26	-	26
<b>Impairment losses as at 30 June 2010</b>	<b>10,561</b>	<b>236</b>	<b>10,797</b>

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<b>Bank</b> LVL'000	<b>Impairment losses for loans</b>	<b>Other impairment losses</b>	<b>Off-balance sheet provisions</b>	<b>Total</b>
<b>Impairment losses as at 31 December 2008</b>	<b>4,254</b>	<b>-</b>	<b>176</b>	<b>4,430</b>
Impairment losses	4,112	-	-	4,112
Reversal of impairment losses	(438)	-	-	(438)
Recovery of assets previously written-off	(93)	-	-	(93)
<b>Net charge to the income statement</b>	<b>3,581</b>	<b>-</b>	<b>-</b>	<b>3,581</b>
Foreign exchange movements	2	-	-	2
Net write-offs and recovery of assets accounted in off-balance sheet	(403)	-	(14)	(417)
<b>Impairment losses as at 30 June 2009</b>	<b>7,434</b>	<b>-</b>	<b>162</b>	<b>7,596</b>
<b>Impairment losses as at 31 December 2009</b>	<b>11,220</b>	<b>170</b>	<b>902</b>	<b>12,292</b>
Impairment losses	3,605	4	-	3,609
Reversal of impairment losses	(4,721)	-	(435)	(5,156)
Recovery of assets previously written off	(39)	-	-	(39)
<b>Net charge to the income statement</b>	<b>(1,155)</b>	<b>4</b>	<b>(435)</b>	<b>(1,586)</b>
Foreign exchange movements	3	2	-	5
Net write-offs and recovery of assets written down as off-balance sheet items	26	-	-	26
<b>Impairment losses as at 30 June 2010</b>	<b>10,094</b>	<b>176</b>	<b>467</b>	<b>10,737</b>

Reversal of impairment loss includes enhancement of credit risk in amount of LVL 3.5 million from consideration arising from additional collateral placed.

Impairment losses for off-balance sheet commitments amount to LVL 467 thousand (2009: 902 thousand).

The impairment losses were calculated as collective impairment based on same principles which are applied for Bank's impairment calculation.

## 6. OTHER COMPREHENSIVE INCOME

During the year the Bank transferred certain property and land totalling LVL 11 068 thousand to newly established subsidiaries by investing these assets in equity of the subsidiaries. The aforementioned property and land had been carried at fair value and revaluation reserve net of deferred tax in amount of LVL 4 580 thousand was recognised during previous years. At time of transfer of assets to subsidiaries all related revaluation reserve was reclassified to retained earnings through other comprehensive income statement with no net effect. At Group level no changes took place, except deferred tax on revaluation was released as the new carrying values of these assets equal to their carrying tax values.

## 7. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation and the average number of shares in issue during the period.

	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>
Profit after taxation (LVL'000)	(5,099)	(2,913)
Average number of shares in issue (thousand)	19,324	12,149
<b>Earnings per share</b>	<b>(0,264)</b>	<b>(0,240)</b>

Diluted earnings per share are calculated based on the agreements, which in future might impact the number of shares in issue, as well as leave an impact on the current period income statement. Thus the diluted earnings per share are calculated by dividing profit or loss after taxation adjusted for the interest paid on subordinated debt, by the average number of shares in issue during the period adjusted for the effects of the amount of shares, which might be issued by converting subordinated debt from Convers Group Management Company at the ratio of LVL 1.15 of subordinated debt per one share.

	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>
Profit after taxation (LVL'000)	(5,099)	(2,913)
Interest for subordinated debt, net of income tax (LVL'000)	193	193
	<b>(4,906)</b>	<b>(2,720)</b>
Average number of shares in issue (thousand)	19,324	12,149
Potential shares as a result of conversion of subordinated debt (thousand)	3,361	3,361
	<b>22,685</b>	<b>15,510</b>
<b>Diluted earnings per share (LVL)</b>	<b>(0,216)</b>	<b>(0,175)</b>



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**8. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

<b>LVL '000</b>	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 30/06/2009</b>
Assets held for sale (yacht)	4,275	4,275	4,275	4,275
Discontinued operations	181	-	679	-
<b>Total non-current assets held for sale and discontinued operations</b>	<b>4,456</b>	<b>4,275</b>	<b>4,954</b>	<b>4,275</b>

**Profit/ (loss) from the sale of subsidiaries**

While implementing the strategy designed by the Snoras Group owning both AS Latvijas Krājbanka (hereinafter – Krājbanka) and AB Finasta Holding (hereinafter – Finasta Holding), in April 2010 Krājbanka signed agreements with Finasta Holding on the sale of the shares owned by Krājbanka in AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, AS Pirmais atklātais pensiju fonds, and AS IBS Renesource Capital. According to the strategy, the management of all the investment assets of the Snoras Group is consolidated with Finasta Holding, so ensuring optimisation and development of the investment services offered by the Snoras Group on the Latvian and Lithuanian markets.

The transactions will be finalised after having been authorised by all the regulatory institutions and as soon as the procedures and payments provided for by the agreements are complied with and made. As a result of the transactions, Finasta Holding will become the sole shareholder of AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, AS Pirmais atklātais pensiju fonds, and AS IBS Renesource Capital.

In June 2010, AS Latvijas Krājbanka sold all its 250 000 shares (forming 100% of the share capital) in AS Pirmais atklātais pensiju fonds, reg. No. 40003377918, to AB Bankas Finasta belonging to AB Finasta Holding and thus ceased being the shareholder of this subsidiary.

**Profit/ (loss) from the sale of subsidiary**

<b>LVL '000</b>	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 30/06/2009</b>
Consideration received	156	-	156	-
Net assets sold	(151)	-	(253)	-
<b>Total profit/ (loss) from sale</b>	<b>5</b>	<b>-</b>	<b>(97)</b>	<b>-</b>
<b>Including profit/ (loss) for the period</b>	<b>61</b>	<b>-</b>	<b>(97)</b>	<b>-</b>

**Financial result of the subsidiaries held for sale**

<b>LVL '000</b>	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 0/06/2009</b>
Interest income	7	3	-	-
Interest expense	(3)	-	-	-
Commission and fee income	308	192	-	-
Commission and fee expense	(23)	(2)	-	-
Profit from securities and foreign exchange transactions	92	-	-	-
Administrative and other expense	(192)	(116)	-	-
Depreciation	(4)	-	-	-
Loss from sales of subsidiary	(97)	-	(97)	-
Corporate income tax	(27)	(18)	-	-
<b>Total profit/ (loss) for the year from discontinued operations</b>	<b>61</b>	<b>59</b>	<b>(97)</b>	<b>-</b>

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**Balance sheet data of the subsidiaries held for sale**

LVL '000	Group 30/06/2010	Group 31/12/2009	Bank 30/06/2010	Bank 31/12/2009
<b>Assets</b>				
Due from credit institutions	74	-	-	-
Tangible assets	8	-	-	-
Intangible assets	30	-	-	-
Prepayments and accrued income	3	-	-	-
Corporate income tax receivable	20	-	-	-
Other assets	46	-	-	-
<b>Total assets held for sale</b>	<b>181</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Deferred income and accrued expense	46	-	-	-
Corporate income tax liability	28	-	-	-
Other liabilities	6	-	-	-
<b>Total liabilities held for sale</b>	<b>80</b>	<b>-</b>	<b>-</b>	<b>-</b>

**9. CASH AND DEMAND DEPOSITS WITH CENTRAL BANKS**

In the first half of 2010, idle cash was deposited with the Bank of Latvia. As at 30 June 2010, the deposit amounted to LVL 50 million.

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**10. LOANS AND ADVANCES TO CUSTOMERS**

The analysis of the Bank's and Group's loan loss impairment by categories is as follows:

<b>LVL'000</b>	<b>Group 30/06/2010</b>	<b>Group 31/12/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 31/12/2009</b>
<b>Business loans</b>	206,684	198,126	208,936	200,405
Accumulated loan loss impairment at the beginning of the reporting period	(3,696)	(734)	(3,696)	(734)
Charge for the period	(852)	(3,380)	(852)	(3,380)
Recoveries	2,081	418	2,081	418
Accumulated loan loss impairment at the end of the reporting period	(2,467)	(3,696)	(2,467)	(3,696)
<b>Utilised credit lines</b>	26,961	32,392	49,341	56 586
Accumulated loan loss impairment at the beginning of the reporting period	(561)	(220)	(561)	(220)
Charge for the period	(702)	(341)	(702)	(341)
Recoveries	425	-	425	-
Accumulated loan loss impairment at the end of the reporting period	(838)	(561)	(838)	(561)
<b>Mortgage loans</b>	60,050	61,398	60,050	61,398
Accumulated loan loss impairment at the beginning of the reporting period	(1,811)	(858)	(1,811)	(858)
Charge for the period	(1,305)	(1,178)	(1,305)	(1,178)
Recoveries	789	225	789	225
Accumulated loan loss impairment at the end of the reporting period	(2,327)	(1,811)	(2,327)	(1,811)
<b>Consumer loans</b>	14,839	17,254	14,839	17,254
Accumulated loan loss impairment at the beginning of the reporting period	(1,903)	(2,987)	(1,903)	(1,159)
Charge for the period	(368)	(1,460)	(368)	(1,460)
Recoveries	1,113	2,544	1,113	716
Accumulated loan loss impairment at the end of the reporting period	(1,158)	(1,903)	(1,158)	(1,903)
<b>Debit balance of settlement cards and overdrafts</b>	5,001	5,460	5,001	5 460
Accumulated loan loss impairment at the beginning of the reporting period	(1,351)	(602)	(1,351)	(602)
Charge for the period	(52)	(879)	(52)	(879)
Recoveries	70	130	70	130
Accumulated loan loss impairment at the end of the reporting period	(1,333)	(1,351)	(1,333)	(1,351)
<b>Other loans</b>	40,967	38,685	40,014	38,685
Accumulated loan loss impairment at the beginning of the reporting period	(1,898)	(681)	(1,898)	(681)
Charge for the period	(1,305)	(1,437)	(1,305)	(1,437)
Recoveries	1,232	220	1,232	220
Accumulated loan loss impairment at the end of the reporting period	(1,971)	(1,898)	(1,971)	(1,898)
<b>Finance lease</b>	17,287	19,993	-	-
Accumulated loan loss impairment at the beginning of the reporting period	(902)	(86)	-	-
Charge for the period	-	(902)	-	-
Recoveries	435	86	-	-
Accumulated loan loss impairment at the end of the reporting period	(467)	(902)	-	-
<b>Net loans</b>	361,228	361,186	368,087	368,568

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The analysis of the Bank's and Group's loan loss impairment in breakdown by impairment categories is as follows:

<b>LVL'000</b>	<b>Group 30/06/2010</b>	<b>Group 30/06/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 30/06/2009</b>
Individual impairment	5,840	8,902	5,840	6,231
Impairment of homogeneous loan pools	1,083	-	616	-
Outstanding interest	3,638	2,310	3,638	1,203
<b>Accumulated loan loss impairment at the end of the reporting period</b>	<b>10,561</b>	<b>11,212</b>	<b>10,094</b>	<b>7,434</b>

Loans and advances to customers before impairment losses by industry:

<b>LVL '000</b>	<b>Group 30/06/2010</b>	<b>Group 31/12/2009</b>	<b>Bank 30/06/2010</b>	<b>Bank 31/12/2009</b>
Private individuals	124,069	127,637	119,984	123,066
Real estate management	68,783	62,157	68,187	61,539
Transport, warehousing and communications	40,985	42,080	39,710	40,661
Manufacturing	29,267	27,674	26,951	26,340
Financial intermediaries	26,702	25,824	44,672	45,810
Construction	11,668	16,096	9,352	13,045
Hotels and restaurants	9,890	16,375	9,570	15,976
Retail and wholesale	13,891	14,591	10,742	10,857
Debt collection	13,051	12,941	13,051	12,941
Other service industries	13,311	9,047	11,648	6,257
Sports and leisure activities	7,961	7,798	7,961	7,798
Agriculture and forestry	6,078	6,433	4,360	4,788
Investment companies	1,815	1,861	7,901	8,144
State administration and healthcare	1,174	1,239	1,138	1,216
Electricity, gas and water utilities	2,652	1,058	2,462	853
Computer services	492	497	492	497
<b>Total loans and advances to customers, gross</b>	<b>371,789</b>	<b>373,308</b>	<b>378,181</b>	<b>379,788</b>

Loans issued to corporate customers specifically for the purpose of constructing buildings or other constructions have been classified in the above industry profile as loans and advances to the construction industry.

**Credit quality of financial assets**

The table describes the quality of the Bank's (and the Group's) financial assets according to the rating agency data. The Bank uses Fitch, Moody's, Standard&Poor's ratings to classify balances due from credit institutions and fixed income securities.

Financial assets are grouped according to the Basel II requirements. The Bank's (and Group's) loan portfolio does not contain loans to customers having international credit ratings.

**Bank**

<b>As at 30 June 2010 LVL'000</b>	<b>Neither past due nor impaired</b>				<b>Past due or individually impaired</b>	<b>Total</b>
	<b>High grade</b>	<b>Standard grade</b>	<b>Sub-standard grade</b>	<b>Individually evaluated without grade</b>		
Demand deposits with central banks	-	78,710	-	-	-	78,710
Due from credit institutions	46,704	130	1,634	42,973	-	91,441
Loans and advances to customers	-	-	-	258,339	109,748	368,087
Financial assets at fair value through profit or loss	287	1,671	191	860	-	3,009
Financial assets held for trading	-	-	66	-	-	66
Held-to-maturity investments	1,207	12,117	892	-	-	14,216
Derivatives	85	294	-	31	-	410
<b>Total</b>	<b>48,283</b>	<b>92,922</b>	<b>2,783</b>	<b>302,203</b>	<b>109,748</b>	<b>555,939</b>

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**Bank**

As at 31 December 2009  
LVL'000

	Neither past due nor impaired				Past due or individually impaired	<u>Total</u>
	High grade	Standard grade	Sub-standard grade	Individually evaluated without grade		
Demand deposits with central banks	-	33,770	-	-	-	33,770
Due from credit institutions	25,311	799	-	76,129	-	102,239
Loans and advances to customers	-	-	-	292,455	76,113	368,568
Financial assets at fair value through profit or loss	3,432	471	253	803	-	4,959
Held-to-maturity investments	8,586	1,563	959	-	-	11,108
Derivatives	92	358	-	100	-	550
<b>Total</b>	<b>37,421</b>	<b>36,961</b>	<b>1,212</b>	<b>369,487</b>	<b>76,113</b>	<b>521,194</b>

The ratings are grouped according to the following rules (the example below uses ratings assigned by Moody's).

Rating value	Moody's rating
<b>High grade</b>	Aaa Aa1-A3 Baa1-Baa2 Baa3
<b>Standard grade</b>	Ba1 Ba2-Ba3 B1-B2
<b>Sub-standard grade</b>	B3- Caa-C
<b>Individually evaluated</b>	D or without rating

**Aging analysis of past due but not impaired financial assets (the Bank and the Group)**

As at 30 June 2010 LVL'000	Past due but not impaired loans				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Business loans	10,551	291	3,579	24,938	<b>39,359</b>
Utilised credit lines	4	4	504	1,750	<b>2,262</b>
Mortgage loans	5,560	754	711	10,479	<b>17,504</b>
Consumer loans	1,120	354	251	2,418	<b>4,143</b>
Debit balance of settlement cards and overdrafts	-	-	-	-	-
Other loans	978	1,503	572	15,174	<b>18,227</b>
<b>Total</b>	<b>18,213</b>	<b>2,906</b>	<b>5,617</b>	<b>54,759</b>	<b>81,495</b>

As at 31 December 2009 LVL'000	Past due but not impaired loans				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Business loans	2,485	729	10,390	10,822	<b>24,426</b>
Utilised credit lines	204	150	2	1,060	<b>1,416</b>
Mortgage loans	3,356	1,282	1,583	10,941	<b>17,162</b>
Consumer loans	1,324	648	476	1,870	<b>4,318</b>
Other loans	1,721	1,610	190	6,575	<b>10,096</b>
<b>Total</b>	<b>9,090</b>	<b>4,419</b>	<b>12,641</b>	<b>31,268</b>	<b>57,418</b>

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**Renegotiated loans (the Bank and the Group)**

<b>LVL'000</b>	<b>30/06/2010</b>	<b>31/12/2009</b>
Business loans	15,124	30,845
Utilised credit lines	260	565
Mortgage loans	1,969	6,582
Consumer loans	1,590	1,384
Other loans	2,350	12,262
<b>Total</b>	<b>21,293</b>	<b>51,638</b>

The table does not include past due loans where renegotiation of terms is not caused by the customer's inability to repay the loan.

During the reporting period, the loans totalling LVL 1,982 thousand of all the renegotiated loans were restructured. A restructured loan is a loan whose conditions are substantially changed in favour of a borrower because of the financial difficulties, i.e., granting of privileges that would not be granted otherwise.

**11. INVESTMENTS IN SUBSIDIARIES**

<b>LVL '000</b>	<b>Business profile</b>	<b>Historical cost as at 30/06/2010</b>	<b>Share (%)</b>	<b>Historical cost as at 31/12/2009</b>	<b>Share (%)</b>
AS Ieguldījumu sabiedrība LKB Krājfondi'	Investment fund management	-	-	361	100
Ieguldījumu pārvaldes sabiedrība LKB Assets management	Investment fund management	-	-	120	100
SIA LKB Līzings	Financial intermediaries	120	100	120	100
AS Pirmais atklātais pensiju fonds	Investment fund management	-	-	253	100
SIA Krājinvestīcijas	Real estate management	2,132	100	532	100
SIA LKB Drošība	Security services	10	100	10	100
AAS LKB LIFE	Insurance services	2,714	99,79	2,714	99,79
SIA LKB Collect	Real estate management	10	100	10	-
SIA LKB property	Real estate management	4,544	100	-	-
AS IBS "Renesource Capital"	Investment brokerage company	-	-	200	100
SIA LKB Rīgas īpašumi	Real estate management	2,379	100	-	-
SIA Jēkaba 2	Real estate management	2,645	100	-	-
SIA Brīvības 38	Real estate management	1,508	100	-	-
SIA Baltic Property project	Real estate management	2	100	2	100
<b>Total investments in subsidiaries</b>		<b>16,064</b>	<b>-</b>	<b>4,322</b>	<b>-</b>

The Board of AS Latvijas Krājbanka resolved to establish the following subsidiaries: SIA LKB Rīgas īpašumi, SIA LKB Property, SIA Jēkaba 2, and SIA Brīvības 38. The companies will carry out management and administration of the real estate owned by AS Latvijas Krājbanka. These companies were established in order to optimise the activities of Krājbanka by segregating the assets that are not related to the Bank's core business operations.

While implementing the strategy designed by the Snoras Group owning both AS Latvijas Krājbanka and AB Finasta Holding (hereinafter – Finasta Holding), in April 2010 Krājbanka signed agreements with Finasta Holding on the sale of the shares owned by Krājbanka in AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, AS Pirmais atklātais pensiju fonds, and AS IBS Renesource Capital. According to the strategy, the management of all the investment assets of the Snoras Group is consolidated with Finasta Holding, so ensuring optimisation and development of the investment services offered by the Snoras Group on the Latvian and Lithuanian markets.

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The transactions will be finalised after having been authorised by all the regulatory institutions and as soon as the procedures and payments provided for by the agreements are complied with and made. As a result of the transactions, Finasta Holding will become the sole shareholder of AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, AS Pirmais atklātais pensiju fonds, and AS IBS Renesource Capital.

On 7 June 2010, the sale of the shares owned by AS Latvijas Krājbanka in AS Pirmais atklātais pensiju fonds to AB Finasta Holding was finalised. AS Latvijas Krājbanka sold all its 250 000 shares (forming 100% of the share capital) in AS Pirmais atklātais pensiju fonds, reg. No. 40003377918, to AB Bankas Finasta belonging to AB Finasta Holding and thus ceased being the shareholder of this subsidiary.

In May 2010, SIA Krājinvestīcijas issued additional shares for LVL 1 600 000, thus increasing its share capital up to LVL 2 132 100. The registered and paid-up share capital of SIA Krājinvestīcijas at the date of approval of the capital increase regulations was LVL 532 100. The share capital of the company consists of 21 321 shares. The par value of each share is LVL 100.

The share capital was increased up to LVL 2 132 100 by offering the sole shareholder - AS Latvijas Krājbanka - to acquire the new shares in the company.

## **12. TANGIBLE ASSETS**

In the reporting period, the Board of AS Latvijas Krājbanka resolved to increase the share capital of the subsidiaries SIA Brīvības 38, SIA Jēkaba 2, SIA LKB Property, and SIA LKB Rīgas īpašumi. The increase was carried out by investing the properties owned by AS Latvijas Krājbanka totalling LVL 11 068 000.

In May 2010, AS Latvijas Krājbanka established the following subsidiaries: SIA LKB Rīgas īpašumi, SIA LKB Property, SIA Jēkaba 2, and SIA Brīvības 38. The companies will carry out real estate management and administration. These companies were established in order to optimise the activities of Krājbanka by segregating the assets that are not related to the Bank's core business operations.

The properties were appraised before being invested in the share capital of the subsidiaries. The appraisal was performed by SIA Aģentūra Optima. The total increase in the real estate value as a result of the revaluation was LVL 96 406, while the resulting impairment was LVL 776 986.

Additions for the reporting period total LVL 406 thousand (2009: LVL 289 thousand), while disposals amount to LVL 12 726 thousand (2009: LVL 198 thousand).

## **13. DUE TO CREDIT INSTITUTIONS**

At the end of 2009, several Latvian credit institutions deposited their funds with Latvijas Krājbanka, which exceeded LVL 14 million. The deposits matured in the first half of 2010.

## **14. DEPOSITS FROM CUSTOMERS**

Deposits have increased by the end of first half of 2010 due to increase from deposits from private individuals (increase by LVL 13.9 million) and demand deposits from companies.

## **15. EQUITY**

As at 30 June 2010, the Bank's registered and paid-in share capital was LVL 19 324 thousand (2009: LVL 19 324 thousand). The share capital consists of:

<b>Shares, thousand</b>	<b>30/06/2010</b>	<b>31/12/2009</b>
Ordinary shares	19,321,414	19,321,414
Preferred shares	2,834	2,834
<b>Total</b>	<b>19,324,248</b>	<b>19,324,248</b>

Ordinary shares are entitled to equal rights to dividends, liquidation quota and voting rights at the shareholders meeting. The par value per share is LVL 1.

Preferred shares are entitled to dividend proportionally to the shareholding regardless of the management decision on the dividend payment. Shares do not have any voting rights and the par value per share is LVL 1.

All 19 324 248 shares of AS Latvijas Krājbanka are listed on the Second List of AS NASDAO OMX Riga. There are no limitations for transfer of the Bank's shares.

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The Bank's major shareholders as at 30 June 2010 and 31 December 2009 were as follows:

LVL '000	30/06/2010		31/12/2009	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
AS Bankas Snoras	16,459	85,17	10,284	53,22
Vladimir Antonov	-	-	6,175	31,96
Ratto Holdings Limited	1,213	6,28	1,213	6,28
AS West Investment	868	4,49	868	4,49
Other *	784	4,06	784	4,05
<b>Total</b>	<b>19,324</b>	<b>100.00</b>	<b>19,324</b>	<b>100,00</b>

The Bank's Articles of Association may be changed by the shareholders' meeting by a ¾ majority vote represented at the meeting.

The Bank has not concluded any agreements, which would come into force in the case of a change of control.

As at 30 June 2010, the Board Members did not hold any shares of the Bank.

**Reserves:**

- The reserve is based on legislation that existed in 1993 – 2001 and mainly refers to privatisation and the treatment of capital increase and distribution of profit. The last movement relates to the share capital increase on 21 November 2000. As at 30 June 2010, the Bank's reserve amounted to LVL 626 thousand.
- The revaluation reserve is a reserve from revaluation of tangible assets. Based on the provisions of IAS 16, revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the reporting date. In 2010, the properties totalling LVL 11 068 000 have been invested in the share capital of the newly established subsidiaries. As a result, the revaluation reserve has decreased by LVL 5 044 733.

**16. CASH AND CASH EQUIVALENTS**

LVL '000	Group		Bank	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
Cash and demand deposits with the Bank of Latvia	88,613	39,027	88,612	39,026
Balances due from credit institutions	85,253	104,417	85,140	104,005
Balances due to credit institutions	(303)	(20,507)	(303)	(20,507)
<b>Total cash and cash equivalents</b>	<b>173,563</b>	<b>122,937</b>	<b>173,449</b>	<b>122,524</b>

In the first half of 2010, idle cash was deposited with the Bank of Latvia. As at 30 June 2010, the deposit amounted to LVL 50 million.

**17. RELATED PARTY DISCLOSURES**

Related parties are defined as shareholders who have control over the Bank, members of the Council and the Board, key management personnel, their close relatives, and companies in which they have a controlling interest as well as subsidiaries and associated companies.

LVL '000	Group		Bank	
	30/06/2010	31/12/2009	30/06/2010	31/12/2009
<b>Amounts receivable:</b>				
Loans and advances to related parties:				
- Management	192	140	92	79
- Parent company	129	753	129	745
- Subsidiaries	-	-	24,632	26,478
- Other related legal entities	5,852	36,225	5,830	36,185
- Other related private individuals	32	64	32	64
Financial assets at fair value through profit or loss - currency derivative fair value:				
- Parent company	294	358	294	358
<b>Total amounts receivable:</b>	<b>6,499</b>	<b>37,540</b>	<b>31,009</b>	<b>63,909</b>



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LVL '000	Group 30/06/2010	Group 31/12/2009	Bank 30/06/2010	Bank 31/12/2009
<b>Amounts payable:</b>				
Deposits and funds received:				
- Management	275	353	188	195
- Parent company	192	3,923	192	3,923
- Subsidiaries	-	-	3,509	3,622
- Other related legal entities	3	67	3	67
- Other related private individuals	31	6,276	31	6,276
Derivative liabilities - currency derivative fair value:				
- Parent company	-	69	-	69
- Other related legal entities	2	-	2	-
<b>Total amounts payable:</b>	<b>503</b>	<b>10,688</b>	<b>3,925</b>	<b>14,152</b>
<b>Credit commitments and contingencies to related parties</b>				
- Management	1,120	281	1,117	30
- Parent company	-	-	-	-
- Subsidiaries	-	-	3,804	1,295
- Other related legal entities	30	-	-	-
- Other related private individuals	57	909	57	909
<b>Total commitments and contingencies to related parties:</b>	<b>1,207</b>	<b>1,190</b>	<b>4,978</b>	<b>2,234</b>
<b>Profit and loss items</b>				
Interest revenue	4	434	432	1,753
<i>Inc. interest revenue from parent company</i>	3	432	3	432
Interest expense	(1)	(122)	(130)	(388)
<i>Inc. interest expense from parent company</i>	(1)	(104)	(1)	(104)
Commission and fee revenue	-	-	250	166
Commission expense	-	-	(176)	(462)
Other revenue/ expense	4	(99)	9	(44)
<b>Total profit or loss</b>	<b>7</b>	<b>213</b>	<b>385</b>	<b>1,025</b>

All transactions with related parties are made in at terms equivalent to those that prevail in arm's length transactions.

The Group has not recorded any impairment of receivables relating to amounts owed by related parties (2009: LVL 0). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

During the reporting period Bank has entered into an arrangement with its parent Snoras Bank with notional value of LVL 41 million of maximum possible credit enhancement. The fair value of the aforementioned agreement as estimated by the Bank was null as a result no payments have been made by neither party at inception of this agreement.

The Bank has issued a EUR 770,000 guarantee in favour of AS Swedbank to assist a related party with real estate acquisition. The standard fee has been charged. The guarantee expires on 8 June 2011. The guarantee has been secured by collateral with a market value that exceeds the guarantee amount several times. The Bank also has issued a EUR 300,000 guarantee in favour of American Express Services Europe Ltd. to secure credit card transactions of related parties.

There is no accrued impairment loss in relation to the loans issued to related parties.

## **18. DEBT SECURITIES ISSUED**

On 29 January 2010, in accordance with the terms set out in the CA Series Mortgage Bonds Prospectus of AS Latvijas Krājbanka, CA series mortgage bonds were extinguished for the total amount of EUR 5 million.

The interest revenue per one CA series mortgage bond issued by AS Latvijas Krājbanka for the period from 31 July 2009 to 31 January 2010 (excluding) is EUR 1,078125 (one euro and 7,8125 eurocents). The interest will be paid out in accordance with the terms set out in the CA series mortgage bonds prospectus of AS Latvijas Krājbanka on 29 January 2010.

**AS LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

**19. SEGMENT ANALYSIS**

The following analysis of segments is based on the Group's and Bank's internal reports. The Group and the Bank considers their operations as one segment.

(1) Statement of financial position

LVL '000	Group 30/06/2010	Group 31/12/2009	Bank 30/06/2010	Bank 31/12/2009
<b>Assets</b>				
Cash and demand deposits with central banks	88,320	43,563	88,320	43,563
Due from credit institutions	89,493	98,405	88,947	98,272
Loans and advances to customers	366,202	368,738	372,594	375,218
Fixed income securities	16,364	15,722	16,348	15,101
Derivatives	410	550	410	550
Shares and other investments	581	531	17,326	4,852
Tangible assets and intangible assets	8,874	21,073	8,229	20,504
Other assets	47,550	35,518	28,887	28,228
<b>Total assets</b>	<b>617,794</b>	<b>584,100</b>	<b>621,061</b>	<b>586,288</b>
<b>Liabilities</b>				
Due to credit institutions	303	16,426	303	16,426
Deposits from customers	522,634	467,635	526,136	471,898
Debt securities issued	-	3,514	-	3,514
Derivatives	2	172	2	172
Other liabilities	12,839	17,562	12,184	15,136
Impairment and accrued liabilities	21,277	14,323	21,169	14,229
Subordinated debt	15,869	14,995	15,869	14,995
Equity	44,870	49,473	45,398	49,918
<b>Total shareholders' equity and liabilities</b>	<b>617,794</b>	<b>584,100</b>	<b>621,061</b>	<b>586,288</b>
<b>Total assets per internal reporting</b>	<b>617,794</b>	<b>584,100</b>	<b>621,061</b>	<b>586,288</b>
Reconciling items:				
Impairment *	(10,797)	(12,291)	(10,270)	(11,389)
Other reconciling items **	(8,081)	(5,041)	(8,050)	(4,993)
<b>Total assets per IFRS statements</b>	<b>598,916</b>	<b>566,768</b>	<b>602,741</b>	<b>569,906</b>
<b>Latvia</b>	<b>442,313</b>	<b>421,604</b>	<b>446,138</b>	<b>425,680</b>
<b>Other countries</b>	<b>156,603</b>	<b>145,164</b>	<b>156,603</b>	<b>144,226</b>
<b>Total liabilities per internal reporting</b>	<b>572,924</b>	<b>534,627</b>	<b>575,663</b>	<b>536,370</b>
Reconciling items:				
Impairment *	(10,797)	(12,291)	(10,270)	(11,389)
Other reconciling items **	(8,050)	(5,041)	(8,050)	(4,993)
<b>Total liabilities per IFRS statements</b>	<b>554,077</b>	<b>517,295</b>	<b>557,343</b>	<b>519,988</b>
<b>Latvia</b>	<b>455,690</b>	<b>428,554</b>	<b>458,956</b>	<b>431,247</b>
<b>Other countries</b>	<b>98,387</b>	<b>88,741</b>	<b>98,387</b>	<b>88,741</b>

\* For internal reporting purposes impairment is shown as a liability and not netted with related assets.

\*\* Other reconciling items mostly represent cut-off and classification required by IFRS.

**AS LATVIJAS KRĀJBANKA**  
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(2) Income statement/ statement of comprehensive income

LVL '000	Group 30/06/2010	Group 30/06/2009	Bank 30/06/2010	Bank 30/06/2009
Interest revenue	11,786	16,704	11,792	15,078
Commission and fee revenue	5,017	4,676	5,224	4,453
Dividend revenue	3	-	3	-
Trading/ revaluation result	1,726	5,387	1,694	5,383
Impairment	5,205	531	5,196	531
Other revenue	7,202	1,649	6,241	1,489
<b>Total revenue</b>	<b>30,939</b>	<b>28,947</b>	<b>30,150</b>	<b>26,934</b>
Interest expense	(13,007)	(11,970)	(13,114)	(11,720)
Commission and fee expense	(1,743)	(1,127)	(1,913)	(1,118)
Administrative expense	(10,122)	(10,854)	(9,451)	(10,262)
Depreciation and amortisation expense	(947)	(1,141)	(891)	(1,038)
Tax expense	121	(5)	121	17
Impairment	(3,610)	(6,176)	(3,611)	(4,112)
Other expense	(454)	(506)	(454)	(301)
Revaluation of non-current assets	(5,811)	(81)	(777)	(81)
<b>Total expense</b>	<b>(35,573)</b>	<b>(31,860)</b>	<b>(30,090)</b>	<b>(28,615)</b>
<b>Profit/(loss)*</b>	<b>(4,634)</b>	<b>(2,913)</b>	<b>60</b>	<b>(1,681)</b>
Total revenue per internal reporting	30,939	28,947	30,150	26,934
<b>Total revenue per IFRS statements</b>	<b>21,740</b>	<b>28,162</b>	<b>21,448</b>	<b>26,167</b>
Total expense per internal reporting	(35,573)	(31,860)	(30,090)	(28,615)
<b>Total expense per IFRS statements</b>	<b>(26,839)</b>	<b>(31,075)</b>	<b>(25,968)</b>	<b>(27,848)</b>
<b>Profit/ (loss) per IFRS statements*</b>	<b>(5,099)</b>	<b>(2,913)</b>	<b>(4,520)</b>	<b>(1,681)</b>

\* The differences between the financial result per the Bank's internal statements and the IFRS statements respectively can be explained by the fact that in the Bank's financial statements the reversal of the fixed asset revaluation reserve and net change of the revaluation reserve are recorded through profit and loss.

## 20. GOING CONCERN

The key target set for the year 2010 to maintain continuous operations of the Bank includes ensuring steady and predictable cash flows as well as maintaining an adequate capital to capture the Bank's operating risk exposure.

Deposits from private individuals are the main source of financing for AS Latvijas Krājbanka. Private individuals and enterprises account for more than 90% of all attracted resources. The strained situation caused by the global economic and financial crisis did not affect the Bank's resources. In 2010, the deposit amount remained stable. The policy pursued by the Bank in the customer attraction and servicing makes it possible to maintain the steady and predictable amount of deposits also in 2010 and shows the Bank's ability to attract free cash of people on the local market.

The Bank has assessed the cash inflow scenarios for the year 2010 and defined the activities aimed at maintaining its liquidity position, setting goals to bring in new cooperation partners and expand the services provided to the existing customers.

In 2010, the Bank has assessed its capital liquidity to ensure successful operations in the subsequent years according to the objectives listed in the Bank's development strategy, identifying all significant risks in a timely fashion and defining the acceptable risk level.

Based on the stress tests for the most significant risk the Bank is exposed to – credit risk – applying the pessimistic GDP forecasts and given various stress test scenarios, the resulting capital adequacy ratio of 9.2% can be assessed as meeting the accepted risk profile. The estimates have revealed that the additional capital requirement for credit risk is LVL 6 million.

The continuing stabilisation of the real estate market and upward tendencies in the national economy – these are factors pre-determining positive changes in the stress test results (a decline in unsecured loans), which leads to a conclusion that the factors exposing banks to various risks will be minimised in the upcoming periods.

The capital exceeded the minimum statutory 8% limit. In 2010, the capital adequacy ratio was between 10.3% and 12.2%, which indicates the Bank's stability and ability to meet its obligations.

The shareholders' meeting of 26 March 2010 adopted a resolution whereby the Bank's share capital would be increased by LVL 6 500 000 (six million five hundred thousand lats). The capital increase will be paid up until 30 September 2010. Moreover, the Bank has considered additional opportunities of raising subordinated debts both from the Snoras Group and on the external market (enhanced by the legislative changes regarding foreign investments in Latvia and residence permits). In addition, the Bank has analysed a possibility of securing part of the loan portfolio by additional guarantees provided by the Bank's owners, if such necessity arises.

Although no new large exposures are planned for 2010, the projected capital increase confirms the Bank's willingness to promote its further development, maintaining its status as a sound and reliable cooperation partner.

If necessary, AS Banka Snoras will provide financial support to AS Latvijas Krājbanka to maintain its liquidity position.

Based on the above, the management has made reasonable judgements and estimates aimed at sustaining the Group and the Bank as going concern entities in 2010 and beyond.

Therefore, these interim condensed consolidated and separate financial statements for the six-month period ended 30 June 2010 are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union.

## **21. SUBSEQUENT EVENTS**

In August 2010, AS Latvijas Krājbanka terminated its participation in the joint-stock company Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, registration No. 40003605043, and in the joint-stock company Ieguldījumu pārvaldes sabiedrība LKB Asset Management, registration No 40003818124 by selling all of the aforementioned companies' shares owned by Krājbanka to AB Finasta Holding.

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**SIA LKB Collect**

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**SIA LKB property**

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**SIA LKB Rīgas īpašumi**

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**SIA Brīvības 38**

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## INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas Krājbanka

### Report on the Financial Statements

We have audited the interim condensed consolidated financial statements of AS Latvijas Krājbanka and its subsidiaries (hereinafter – the Group) and the accompanying interim condensed financial statements of AS Latvijas Krājbanka (hereinafter - the Bank), which are set out on pages 8 through 28 and which comprise the financial position as at 30 June 2010, the statements of comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2010, and explanatory notes.

#### Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these interim condensed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the condensed interim financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim condensed financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the interim condensed financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the interim condensed financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim condensed financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the interim condensed financial statements of the Group and the Bank have been prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the EU.

SIA Ernst & Young Baltic  
Licence No. 17



Diāna Krišjāne  
Chairwoman of the Board  
Latvian Sworn Auditor  
Certificate No. 124

Rīga, 31 August 2010

**AS "Latvijas Krājbanka"**  
**Report additional information**  
**for 6 months of 2010**  
**(unaudited)**



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**Operational results**  
**30 June 2010**

Name of the Item	Reporting period	Previous reporting year
Return on equity (ROE) (%)	0,25	(4.72)
Return on assets (ROA) (%)	0,02	(0.36)

**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

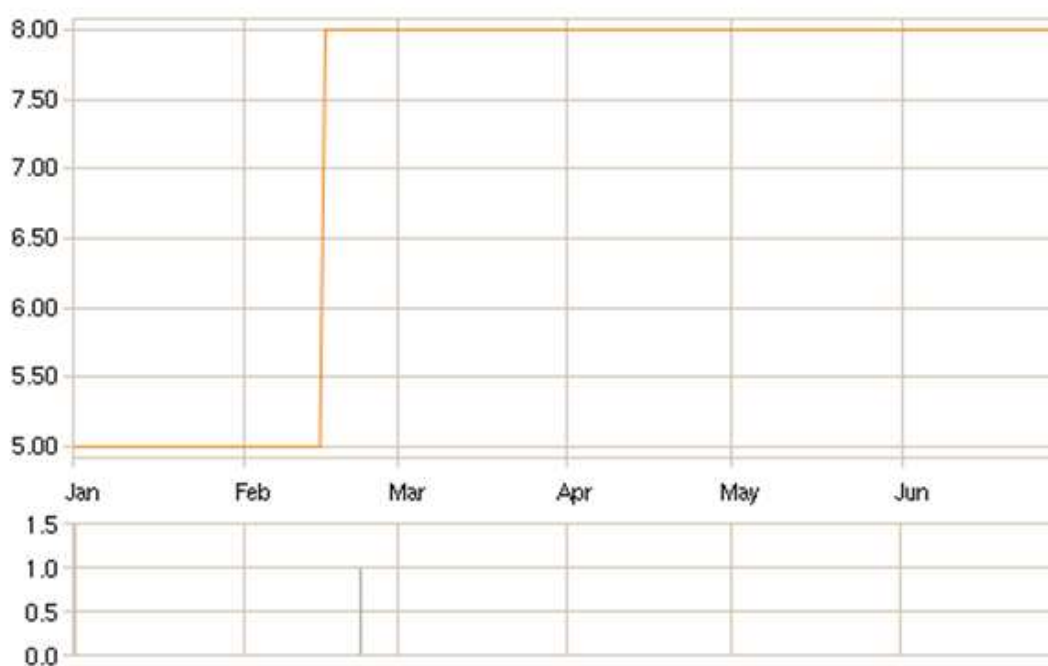
**JSC "Latvijas Krājbanka" share (LKB1R) price development for the period 01.01.2010 – 30.06.2010**



Currency: LVL

Open	0.86 LVL
Max	1.35 LVL
Min	0.82 LVL
Last	1.20 LVL
Change	53.85 %
Deals	193
No of shares traded	40 491
Turnover	42 913.01 LVL

### JSC "Latvijas Krājbanka" share (LKB2R) price development for the period 01.01.2010 – 30.06.2010



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

## 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 (1<sup>st</sup> basic group – persons with small and average income, who regularly use the bank's services and make deposits. 2<sup>nd</sup> 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 (30.06.2010.)**

### ***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](http://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](http://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](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 (30.06.2010 and 30.06.2009).

### Profit and loss statement 30 June 2010

EUR '000	Group 30.06.2010	Group 30.06.2009	Bank 30.06.2010	Bank 30.06.2009
Interest revenue	18,392	26,036	18,401	23,722
Interest expense	(18,470)	(16,705)	(18,623)	(16,349)
<b>Net interest income</b>	<b>(78)</b>	<b>9,331</b>	<b>(222)</b>	<b>7,373</b>
Commission and fee revenue	6,480	5,228	6,774	5,183
Commission and fee expense	(2,450)	(1,567)	(2,692)	(1,558)
<b>Net commission and fee income</b>	<b>4,030</b>	<b>3,661</b>	<b>4,082</b>	<b>3,625</b>
Dividend	4	-	4	-
Profit on sale of securities and foreign exchange trading and revaluation	2,456	7,665	2,411	7,660
Other operating income	1,055	865	670	643
<b>Operating income</b>	<b>7,467</b>	<b>21,522</b>	<b>6,945</b>	<b>19,301</b>
Personnel expense	(7,134)	(8,524)	(6,628)	(7,937)
Depreciation and amortisation expense	(1,343)	(1,622)	(1,264)	(1,476)
Other operating expenses	(7,685)	(7,591)	(7,348)	(7,209)
<b>Total operating expenses</b>	<b>(16,162)</b>	<b>(17,737)</b>	<b>(15,240)</b>	<b>(16,622)</b>
Financial asset impairment Income/ (loss)	2,271	(8,032)	2,257	(5,095)
Impairment of other assets	(1,106)	-	(1,161)	-
<b>Profit/(loss) before corporate income tax</b>	<b>(7,530)</b>	<b>(4,247)</b>	<b>(7,199)</b>	<b>(2,416)</b>
Corporate income tax	188	19	905	24
<b>Loss for the reporting period from continuing operations</b>	<b>(7,342)</b>	<b>(4,228)</b>	<b>(6,294)</b>	<b>(2,392)</b>
(Profit/ (loss) after tax for the reporting period from discontinued operations	87	84	(138)	-
<b>(Loss)/profit for the reporting period</b>	<b>(7,255)</b>	<b>(4,145)</b>	<b>(6,432)</b>	<b>(2,392)</b>
Foreign currency revaluation reserve	-	(8)	-	-
Net change of revaluation reserve	662	(828)	-	(828)
<b>Total comprehensive (loss)</b>	<b>(6,593)</b>	<b>(4,981)</b>	<b>(6,432)</b>	<b>(3,220)</b>
<b>Attributable to:</b>				
Shareholders of the Bank	(6,593)	(4,668)	(6,432)	(3,220)
Minority interest	-	(313)	-	-
Transferred revaluation reserve to retained earnings	-	-	6,517	-
<b>Net increase in retained earnings</b>	<b>(6,593)</b>	<b>(4,981)</b>	<b>85</b>	<b>(3,220)</b>
Basic earnings per share (in euro per share)	(0.375)	(0.341)		
Diluted earnings per share (in euro per share)	(0.308)	(0.249)		

## Balance sheets

### 30 June 2010

EUR '000	Group 30.06.2010	Group 31.12.2009	Bank 30.06.2010	Bank 31.12.2009
<b>Assets</b>				
Cash and deposits with the central bank	126,085	63,079	126,083	63,079
Balances due from credit institutions and the central bank	130,886	145,793	130,109	145,473
Available –for-sale financial assets	94	-	94	-
Financial assets at fair value through profit or loss	4,865	8,140	4,865	7,838
Loans and advances to customers	513,981	513,921	523,741	524,425
Held-to-maturity investments	20,250	16,258	20,227	15,805
Investment properties	1,640	1,640	1,640	1,640
Held-for-sale assets	6,340	6,083	7,049	6,083
Investments in subsidiaries	-	-	22,857	6,150
Intangible assets	2,110	2,187	1,655	1,695
Fixed assets	26,221	27,799	10,054	27,480
Prepayments and accrued income	827	1,020	800	999
Corporate income tax claims	1,228	980	1,227	980
Other assets	17,654	19,538	7,222	9,256
<b>Total assets</b>	<b>852,181</b>	<b>806,438</b>	<b>857,623</b>	<b>810,903</b>
<b>Liabilities</b>				
Balances due to the central bank and credit institutions	431	23,379	431	23,379
Deposits from the customers	759,119	677,507	764,102	683,573
Derivative liabilities	3	244	3	244
Debt securities issued	-	5,045	-	5,045
Deferred income and accrued expenses	2,280	2,023	2,214	1,959
Provisions for off-balance sheet commitments	-	-	664	1,283
Corporate income tax liability	-	64	-	-
Deferred tax liability	300	1,205	300	1,205
Other liabilities	3,081	4,975	2,261	1,586
Subordinated debt	23,051	21,600	23,051	21,600
Liabilities associated with the assets held for sale	113	-	-	-
<b>Total liabilities</b>	<b>788,378</b>	<b>736,042</b>	<b>793,026</b>	<b>739,874</b>
<b>Shareholders' equity</b>				
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	7,445	6,783	266	6,783
Retained earnings	5,359	12,614	13,339	13,254
<b>Total equity attributable to equity holders</b>	<b>63,796</b>	<b>70,389</b>	<b>64,597</b>	<b>71,029</b>
<b>Minority interest</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>-</b>
<b>Total shareholders' equity</b>	<b>63,803</b>	<b>70,396</b>	<b>64,597</b>	<b>71,029</b>
<b>Total liabilities and shareholders' equity</b>	<b>852,181</b>	<b>806,438</b>	<b>857,623</b>	<b>810,903</b>

## 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
<b>Balance as at 01 January 2009</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>7,632</b>	<b>(458)</b>	<b>15,367</b>	<b>943</b>	<b>59,163</b>
Loss for the period						(3,836)	(309)	(4,145)
Other comprehensive expense	-	-	-	(828)	(4)	-	(4)	(836)
<b>Total comprehensive expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(828)</b>	<b>(4)</b>	<b>(3,836)</b>	<b>(313)</b>	<b>(4,981)</b>
Dividends paid	-	-	-	-	-	(1)	-	(1)
<b>Balance as at 30 June 2009</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>6,804</b>	<b>(462)</b>	<b>11,530</b>	<b>630</b>	<b>54,181</b>
<b>Balance as at 01 January 2010</b>	<b>27,496</b>	<b>22,605</b>	<b>891</b>	<b>6,783</b>	<b>-</b>	<b>12,614</b>	<b>7</b>	<b>70,396</b>
Loss for the period	-	-	-	-	-	(7,255)	-	(7,255)
Other comprehensive income	-	-	-	662	-	-	-	662
<b>Total comprehensive income/(expense) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>662</b>	<b>-</b>	<b>(7,255)</b>	<b>-</b>	<b>(6,593)</b>
<b>Balance as at 30 June 2010</b>	<b>27,496</b>	<b>22,605</b>	<b>891</b>	<b>7,445</b>	<b>-</b>	<b>5,359</b>	<b>7</b>	<b>63,803</b>

Bank EUR '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluati on reserve	Retained earnings	Total Equity
<b>Balance as at 01 January 2009</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>7,632</b>	<b>16,069</b>	<b>59,380</b>
Loss for the period	-	-	-	-	(2,392)	(2,392)
Other comprehensive expense	-	-	-	(828)	-	(828)
<b>Total comprehensive expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(828)</b>	<b>(2,392)</b>	<b>(3,220)</b>
Dividends paid	-	-	-	-	(1)	(1)
<b>Balance as at 30 June 2009</b>	<b>17,287</b>	<b>17,501</b>	<b>891</b>	<b>6,804</b>	<b>13,676</b>	<b>56,159</b>
<b>Balance as at 01 January 2010</b>	<b>27,496</b>	<b>22,605</b>	<b>891</b>	<b>6,783</b>	<b>13,254</b>	<b>71,029</b>
Loss for the period	-	-	-	-	(6,432)	(6,432)
Other comprehensive (expense)/ income	-	-	-	(6,517)	6,517	-
<b>Total comprehensive (expense)/income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,517)</b>	<b>85</b>	<b>(6,432)</b>
<b>Balance as at 30 June 2010</b>	<b>27,496</b>	<b>22,605</b>	<b>891</b>	<b>266</b>	<b>13,339</b>	<b>64,597</b>

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

## Cash flow statement

EUR '000	Group 30.06.2010	Group 30.06.2009	Bank 30.06.2010	Bank 30.06.2009
<b>Cash flow from operating activities</b>				
(Loss)/ profit before corporate income tax	(7,530)	(4,247)	(7,199)	(2,416)
Profit/ (loss) from discontinued operations	87	84	(138)	-
Depreciation and amortization	1,343	1,622	1,264	1,476
Increase in impairment losses	(2,271)	8,032	(2,257)	5,095
(Gain)/loss on revaluation of foreign currency	(6,473)	2,205	(6,447)	2,213
(Gain)/loss on revaluation of investments	(656)	159	(656)	171
Loss on revaluation of fixed assets	908	115	963	115
(Gain)/loss from disposals of fixed and intangible assets	2	(1)	2	(1)
<b>(Decrease)/increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities</b>	<b>(14,590)</b>	<b>7,969</b>	<b>(14,468)</b>	<b>6,653</b>
Decrease/(increase) in balances due from the central bank and credit institutions	1,451	19,936	2,066	18,578
(Increase)/decrease in loans and advances to customers	2,204	(10,452)	2,328	(2,797)
Decrease/(increase) in financial assets at fair value through profit or loss	3,681	(171)	3,379	839
Increase/(decrease) in financial assets held for trading	(43)	(495)	(43)	(484)
Increase/(decrease) in held-to-maturity investments	(256)	1	1	-
(Increase)/ decrease in prepayments and accrued income	193	(299)	199	(282)
(Increase)/decrease in other assets	1,642	5,575	1,781	(674)
(Decrease)/increase in balances due to the central bank and credit institutions	(570)	(16,393)	(570)	(14,606)
(Decrease)/increase in deposits from customers	81,612	(184,990)	80,529	(185,086)
Net (increase)/decrease in derivative instruments	(42)	64	(42)	70
(Decrease)/increase in debt securities issued	-	(60)	-	(60)
Increase/(decrease) in deferred income and accrued expenses	257	517	256	149
(Decrease)/increase in other liabilities	(1,779)	(979)	676	(1,147)
<b>Net increase in cash and cash equivalents from operating activities</b>	<b>73,761</b>	<b>(179,776)</b>	<b>76,092</b>	<b>(178,847)</b>
Corporate income tax paid	(64)	(9)	-	-
<b>Net increase in cash and cash equivalents</b>	<b>73,697</b>	<b>(179,785)</b>	<b>76,092</b>	<b>(178,847)</b>
<b>Cash flow from investing activities</b>				
Purchase of fixed and intangible assets	(683)	(461)	(511)	(444)
Proceeds from disposal of fixed and intangible assets	30	26	-	9
Investments in associates subsidiaries, net	-	(285)	(1,927)	(1,034)
Proceeds from held-to-maturity investments	7,581	13,655	7,581	13,359
(Purchase) in held-to-maturity investments	(11,574)	-	(12,003)	-
<b>Net in cash and cash equivalents from investing activities</b>	<b>(4,646)</b>	<b>12,935</b>	<b>(6,860)</b>	<b>11,890</b>
<b>Cash flow from financing activities</b>				
Dividends paid	-	(1)	-	(1)
Repayment of debt securities	(5,045)	-	(5,045)	-
Proceeds from issue of subordinated debt	203	-	203	-
<b>Net in cash and cash equivalents from financing activities</b>	<b>(4,842)</b>	<b>(1)</b>	<b>(4,842)</b>	<b>(1)</b>
<b>Net in cash and cash equivalents</b>	<b>64,209</b>	<b>(166,851)</b>	<b>64,390</b>	<b>(166,958)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>175,030</b>	<b>343,900</b>	<b>174,712</b>	<b>343,419</b>
Profit/(loss) from revaluation of foreign currency	7,719	(2,124)	7,693	(2,123)
<b>Cash and cash equivalents at the end of the period</b>	<b>246,958</b>	<b>174,925</b>	<b>246,795</b>	<b>174,338</b>

Cash flows from interest and dividends:

EUR '000	Group 30.06.2010	Group 30.06.2009	Bank 30.06.2010	Bank 30.06.2009
Interest paid	8,314	7,469	8,462	7,180
Interest received	8,322	16,646	8,321	17,235
Dividends received	4	-	4	-

AS "LATVIJAS KRĀJBANKA"  
 Organization chart  
 (valid from 01.08.2010 )

