

AS "Latvijas Krājbanka"
Interim report
for 9 months of 2010
(unaudited)

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As at 30 September 2010 the members of the Supervisory Council of the Bank were as follows:

Council of the Bank

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment\ reappointment</i>
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 September 2010 the Members of the Board of the Bank were as follows:

Board of the Bank

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment\ reappointment</i>
Ivars Priedītis	Chairman of the Board/ President	18/07/2007 \ 18/07/2010
Dzintars Pelcbergs	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 Surmačs	Member of the Board	28/10/2005 \ 24/10/2008

On July 7th 2010 the Council of the Bank re-elected Ivars Priedītis in the position of Board member and Chairman of the Board, the new term shall be effective as of July 18 2010.

There have been no other changes in composition of the Board of AS "Latvijas Krājbanka" from January 1, 2010 until the date of signing these financial statements.

Appointment and dismissal of the Board Members can be performed 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 3-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 a must for certain Board decisions referring 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 statutory documents of the Bank as well as share capital increase 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 specified 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.

Statement of responsibility of the management

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

These financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and give a true and fair view of the assets, liabilities and financial position of the Bank and the Group as at 30 September 2010 and 31 December 2009, and results of their operations, changes in the shareholders' equity and cash flows for periods ended 30 September 2010 and 30 September 2009.

The financial statements in accordance with the source documents and present fairly the financial position of the Bank as at 30 September 2010.

The interim consolidated financial statements for the 9-month period ended 30 September 2010 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

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

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

Ivars Priedītis
Chairman of the Board /
President

Rīga,
30 November 2010

Consolidated entities
30 September 2010

No.	Name of entity, Registration No.	Code of place of registration, registry address	Type of entity's activity*	Interest in share capital (%)	Interest in share capital (%)	Ground for inclusion in the group**
1.	SIA "Krājinvestīcijas" Reg.No. 40003687374	LV, Rīga, Jekaba street 2	CKS	100	100	MS
2.	SIA "LKB lizings" Reg. No.40003887450	LV, Rīga, J.Daliņa street 15	CFI	100	100	MS
3.	SIA "LKB drošība" Reg.No.40103179152	LV, Rīga, Jekaba street 2	CKS	100	100	MS
4.	AAS "LKB Life" Reg.No.400033053851	LV, Rīga, J.Daliņa street 15	APS	99.79	99.79	MS
5.	SIA "LKB M & A" ("LKB Collect") Reg.No.40103251717	LV, Rīga, J.Daliņa street 15	CKS	100	100	MS
6.	AS IBS "Renesource Capital" Reg.No.40003415571	LV, Rīga, J.Daliņa street 15	ISA	100	100	MS
7.	SIA "LKB Rīgas īpašumi" Reg.No.40103293725	LV, Rīga, Antonijas 6	CKS	100	100	MS
8.	SIA "LKB property" Reg.No.40103293763	LV, Jūrmala, Strelnieku prospekts 11	CKS	100	100	MS
9.	SIA "Jekaba 2" Reg.No.40103293621	LV, Rīga, Jekaba 2	CKS	100	100	MS
10.	SIA "Brīvības 38" Reg.No.40103293246	LV, Rīga, Dalina,15	CKS	100	100	MS
11.	SIA „Baltic Property Projects” Reg.No.-	LV, Rīga, Dalina,15	CKS	100	100	MS

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

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

Statement of comprehensive income/expense

30 September 2010

LVL '000	Group 30/09/2010 (unaudited)	Group 30/09/2009 (unaudited)	Bank 30/09/2010 (unaudited)	Bank 30/09/2009 (unaudited)
Interest revenue	17,318	23,973	17,194	21,889
Interest expense	(18,089)	(18,151)	(18,089)	(17,859)
Net interest revenue	(771)	5,822	(895)	4,030
Commission and fee revenue	7,650	7,002	7,603	6,642
Commission and fee expense	(2,561)	(1,481)	(2,724)	(1,802)
Net commission and fee revenue	5,089	5,521	4,879	4,840
Dividends	13	-	13	100
Net result on sale of securities and foreign exchange trading and revaluation	2,566	6,560	2,550	6,565
Other operating revenue	1,932	3,195	1,523	2,871
Operating revenue	8,829	21,098	8,070	18,406
Personnel expense	(7,461)	(8,743)	(6,928)	(8,005)
Depreciation and amortisation expense	(1,404)	(1,691)	(1,276)	(1,546)
Other operating expense	(8,034)	(8,602)	(7,614)	(7,496)
Total operating expense	(16,899)	(19,036)	(15,818)	(17,047)
Financial asset impairment Income/ (loss)	1,660	(7,847)	1,651	(5,269)
Impairment of other assets	(638)	-	(677)	-
(Loss) before corporate income tax	(7,048)	(5,785)	(6,774)	(3,910)
Corporate income tax	74	155	607	194
(Loss) for the reporting period from continuing operations	(6,974)	(5,630)	(6,167)	(3,716)
(Loss)/profit for the reporting period from continuing operations	(124)	-	291	-
(Loss) for the reporting period	(7,098)	(5,630)	(5,876)	(3,716)
Foreign currency revaluation reserve	-	(172)	-	-
Net change of the revaluation reserve	465	(684)	-	(684)
Total comprehensive (loss)	(6,633)	(6,486)	(5,876)	(4,400)
<i>Comprehensive loss for the period attributable to:</i>				
Shareholders of the Bank	(6,633)	(6,023)	(5,876)	(4,400)
Non-controlling interests	-	(463)	-	-
Transferred revaluation reserve to retained earnings	-	-	4,580	-
Net increase in retained earnings	(6,633)	(6,486)	(1,296)	(4,400)
Basic earnings per share (Lats per share)	(0.367)	(0.240)	-	-
Diluted earnings per share (Lats per share)	(0.300)	(0.175)	-	-

Balance sheet

30 September 2010

LVL '000	Group 30/09/2010 (unaudited)	Group 31/12/2009 (audited)	Bank 30/09/2010 (unaudited)	Bank 31/12/2009 (audited)
Assets				
Cash and demand deposits with central banks	108,353	44,332	108,353	44,332
Due from credit institutions	81,650	102,464	80,827	102,239
Loans and advances to customers	345,332	361,186	352,010	368,568
Financial assets at fair value through profit or loss	6,589	5,721	6,589	5,509
Assets classified as held for sale	4,362	4,275	4,474	4,275
Held-to-maturity investments	10,371	11,426	10,354	11,108
Investment properties	1,153	1,153	1,153	1,153
Investments in subsidiaries	-	-	16,107	4,322
Intangible assets	1,363	1,537	1,159	1,191
Tangible assets	18,194	19,537	6,884	19,313
Prepayments and accrued income	852	717	834	702
Corporate income tax receivable	172	689	172	689
Other assets	20,961	13,731	13,647	6,505
Total assets	599,352	566,768	602,563	569,906
Liabilities				
Due to credit institutions	789	16,431	789	16,431
Deposits from customers	521,918	476,155	524,069	480,418
Debt securities issued	-	3,546	-	3,546
Derivatives	108	172	108	172
Deferred income and accrued expense	364	1,422	339	1,376
Deferred tax liability	211	847	211	847
Corporate income tax liability	-	45	-	-
Provisions for off-balance sheet commitments	-	-	467	902
Other liabilities	17,782	3,496	17,235	1,115
Subordinated debt	15,303	15,181	15,303	15,181
Liabilities associated with the assets held for sale	37	-	-	-
Total liabilities	556,512	517,295	558,521	519,988
Equity				
Paid-in share capital	19,324	19,324	19,324	19,324
Share premium	15,887	15,887	15,887	15,887
Reserve capital and other reserves	626	626	626	626
Revaluation reserve	5,232	4,767	187	4,767
Retained earnings	1,766	8,864	8,018	9,314
Total equity attributable to equity holders	42,835	49,468	44,042	49,918
Non-controlling interests	5	5	-	-
Total shareholders' equity	42,840	49,473	44,042	49,918
Total liabilities and shareholders' equity	599,352	566,768	602,563	569,906

Statements of changes in shareholder's equity

Group LVL '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Foreign currency translation reserve	Retained earnings	Non- controlling interests	Total equity
Balance as at 1 January 2009	12,149	12,300	626	5,364	(322)	10,800	663	41,580
(Loss) for the period	-	-	-	-	-	(5,251)	(379)	(5,630)
Other comprehensive expense	-	-	-	(684)	(88)	-	(84)	(856)
Total comprehensive expense	-	-	-	(684)	(88)	(5,251)	(463)	(6,486)
Dividends paid	-	-	-	-	-	(1)	-	(1)
Issue of shares	1,000	500	-	-	-	-	-	1,500
Balance as at 30 September 2009 (unaudited)	13,149	12,800	626	4,680	(410)	5,548	200	36,593
Balance as at 1 January 2010	19,324	15,887	626	4,767	-	8,864	5	49,473
(Loss) for the period	-	-	-	-	-	(7,098)	-	(7,098)
Other comprehensive income/(expense)	-	-	-	465	-	-	-	465
Total comprehensive income/ (expense) for the period	-	-	-	465	-	(7,098)	-	(6,633)
Balance as at 30 September 2010 (unaudited)	19,324	15,887	626	5,232	-	1,766	5	42,840

Bank LVL '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total equity
Balance as at 1 January 2009	12,149	12,300	626	5,364	11,293	41,732
(Loss) for the period	-	-	-	-	(3,716)	(3,716)
Other comprehensive expense	-	-	-	(684)	-	(684)
Total comprehensive expense	-	-	-	(684)	(3,716)	(4,400)
Dividends paid	-	-	-	-	(1)	(1)
Issue of shares	1,000	500	-	-	-	1,500
Balance as at 30 September 2009 (unaudited)	13,149	12,800	626	4,680	7,576	38,831
Balance as at 1 January 2010	19,324	15,887	626	4,767	9,314	49,918
(Loss) for the period	-	-	-	-	(5,876)	(5,876)
Other comprehensive income/(expense)	-	-	-	(4,580)	4,580	-
Total comprehensive income/(expense)	-	-	-	(4,580)	(1,296)	(5,876)
Balance as at 30 September 2010 (unaudited)	19,324	15,887	626	187	8,018	44,042

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

Cash flow statement

LVL '000	Group 30/09/2010 (unaudited)	Grupa 30/09/2009 (unaudited)	Bank 30/09/2010 (unaudited)	Bank 30/09/2009 (unaudited)
Cash flows to/ from operating activities				
(Loss) before corporate income tax	(7,048)	(5,785)	(6,774)	(3,910)
Profit/ (loss) from discontinued operations	(124)	-	291	-
Amortisation and depreciation	1,404	1,691	1,276	1,546
(Decrease)/ increase in provisions for liabilities and charges	(1,660)	7,847	(1,651)	5,269
(Profit)/ loss on foreign currency translation	(1,012)	3,403	(982)	3,383
(Profit)/ loss on revaluation of investments	(610)	(128)	(610)	(128)
Loss on impairment of tangible assets	638	80	677	80
Loss/ (gain) from disposal of tangible and intangible assets	2	(1)	2	(1)
(Decrease)/ increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities	(8,410)	7,107	(7,771)	6,239
Decrease in balances due from credit institutions	5,490	14,016	7,639	13,167
Decrease/ (increase) in loans and advances to customers	17,510	(23,610)	17,777	(18,397)
Decrease/ (increase) in financial assets at fair value through profit or loss	(783)	244	(995)	516
Increase in financial assets held for trading	(67)	(168)	(209)	(157)
Decrease/ (increase) in available-for-sale financial assets	-	1	-	-
Decrease/ (increase) in prepayments and accrued income	(135)	(127)	(132)	(124)
Decrease/ (increase) in other assets	(6,709)	(2,685)	(6,429)	(7,736)
Increase in balances due to credit institutions	(401)	(12,376)	(401)	(10,593)
Increase/ (decrease) in deposits from customers	45,763	(148,245)	43,651	(147,004)
Net (increase)/ decrease in derivatives	471	(344)	471	(344)
Increase in deferred income and accrued expense	(1,058)	1,144	(1,036)	1,058
Increase/ (decrease) in other liabilities	14,323	3,880	16,120	3,139
Net increase in cash and cash equivalents from operating activities	65,994	(161,163)	68,685	(160,236)
Corporate income tax paid	(104)	(39)	(29)	-
Net increase in cash and cash equivalents	65,890	(161,202)	68,656	(160,236)
Cash flows to/ from investing activities				
(Purchase) of tangible and intangible assets	(769)	(492)	(607)	(486)
Proceeds from sale of tangible and intangible assets	174	19	2	7
Decrease in held-to-maturity securities	6,098	11,008	6,098	10,800
(Purchase) of held-to-maturity securities	(5,043)	(1,472)	(5,344)	(1,472)
Investments in associates and subsidiaries, net	-	-	(874)	(905)
Increase in cash and cash equivalents from investing activities	460	9,063	(725)	7,944
Cash flows to/ from financing activities				
Paid-in share capital	-	1,000	-	1,000
Share premium	-	500	-	500
Repayment of debt securities	(3,546)	-	(3,546)	-
Change in subordinated debt	(169)	6,072	(169)	6,072
Dividends paid	-	(1)	-	(1)
Increase in cash and cash equivalents from financing activities	(3,715)	7,571	(3,715)	7,571
Net increase/ (decrease) in cash and cash equivalents	62,635	(144,568)	64,216	(144,721)
Cash and cash equivalents at the beginning of the period	123,012	241,694	122,788	241,356
Foreign exchange difference	1,303	(3,809)	1,273	(3,617)
Cash and cash equivalents at the end of the period	186,950	93,317	188,277	93,018
Cash flows from interest and dividends				
LVL '000	Group 30/09/2010 (unaudited)	Group 30/09/2009 (unaudited)	Bank 30/09/2010 (unaudited)	Bank 30/09/2009 (unaudited)
Interest paid	11,391	9,961	11,391	9,699
Interest received	10,063	16,089	9,939	16,160
Dividends	13	-	13	100

Operational results

30 September 2010

Name of the Item	Reporting period (unaudited)	Previous reporting year (audited)
Return on equity (ROE) (%)	(3.70)	(4.72)
Return on assets (ROA) (%)	(0.29)	(0.36)

Shareholders and Equity

As of September 30, 2010, the Bank's registered and paid-in stock capital comprised 19.324 thousand lats (December 31, 2009 - LVL 19.324 thousand). The stock capital consists of 19.324.248 shares, including 19.321.414 ordinary bearer shares and 2,834 "A" category preference bearer shares. Nominal value of each share is 1 (one) lat. Starting with October 4, 2010 and the dated of signing present financial statements registered and paid-in capital of the Bank comprises 25.824 thousand lats, which is composed of 25.824.248 shares, including 25.821.414 ordinary bearer shares and 2,834 "A" category preference bearer shares. All shares of AS "Latvijas Krājbanka" are listed on the Baltic Secondary List of the AS „NASDAQ OMX Riga". There are no limitations for alienation of the shares.

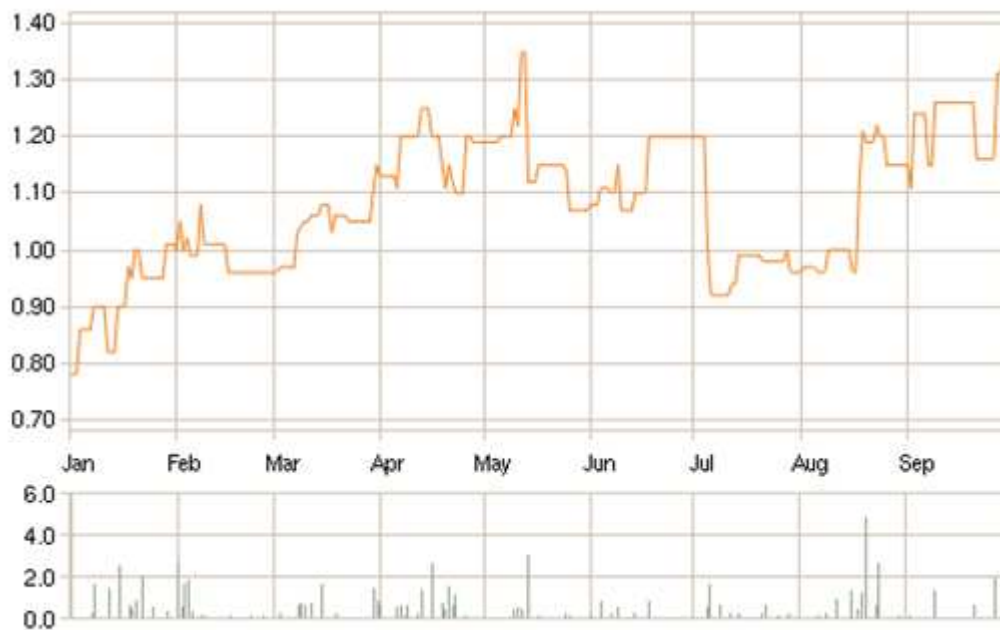
In the result of increase of stock capital the following changes has occurred in the structures of biggest shareholders: the share of the shareholder AB Bankas "Snoras", having its legal address at 7 A. Vivulskio Str., LT-03221, Vilnius, the Republic of Lithuania, in the stock capital of the Bank has increased from 85.17% (30.06.2010) up to 88.91 from the paid-in stock capital (88.92% from the total number of the shares with voting right). The ratio of the shares with voting right owned by the company "Ratto Holdings Limited" has diminished from 6.28% (30.06.2010) up to 4.7% from the stock capital and total number of the Bank shares with voting right. During the time period from June 30, 2010 until the end of the accounting period there have been no other significant changes in the biggest shareholders structure of AS "Latvijas Krājbanka".

Shares(www.nasdaqomxbaltic.com)

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

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

JSC "Latvijas Krājbanka" share (LKB1R) price development for the period 01.01.10 – 30.09.10



Currency: LVL

Open	0.86 LVL
Max	1.35 LVL
Min	0.82 LVL
Last	1.34 LVL
Change	71.79 %
Deals	286
No of shares traded	58 539
Turnover	63 013.79 LVL

JSC "Latvijas Krājbanka" share (LKB2R) price development for the period 01.01.10 – 30.09.10



Currency: LVL

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

Summary of significant accounting policies

The interim consolidated financial statements for the 9-month period ended 30 September 2010 have been prepared in accordance to the IAS 34 Interim Financial Statements.

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

Basic guidelines of the development strategy for 2010-2011

Mission of the Bank

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

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

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

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

1. Business vision.

1.1. Clients.

Target client group of Latvijas Krājbanka –

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

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

1.2. Products and Sales

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

1.3. Markets and Market Presence

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

1.4. Investment Policy

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

1.5. Target Results

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

The planned figures as of the end of 2011:

- a) Increase of the Bank's equity by 70%, reaching LVL 71 million;
- b) Increase of the Bank's assets by 20%, reaching LVL 820 million;
- c) The credit portfolio increase by 15%, reaching LVL 400 million;

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

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

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

2.1. Capital Adequacy Management Strategy.

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

Krājbanka manages all identified risks:

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

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

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

2.2. Credit Risk.

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

2.3. Liquidity Risk Management

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

2.4. Operational Risk

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

2.5. Human Resources Policy.

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

2.6. Provision of Business support Function

2.6.1. IT development

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

2.6.2. Use of External Services

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

3. Development of Krājbanka group

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

- a) SIA "LKB lizings" (Ltd.);
- b) SIA "Krājinvestīcijas" (Ltd.);
- c) SIA "LKB Drošība" (Ltd.);
- d) AAS "LKB LIFE" (IJSC);
- e) SIA "LKB M & A" (Ltd);
- f) AS IBS "Renesource Capital"(JSC);
- g) SIA „LKB Rīgas īpašumi”(Ltd.)
- h) SIA „LKB property”(Ltd.);
- i) SIA „Jēkaba 2”(Ltd.);
- j) SIA „Brīvības 38”(Ltd.).

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 (30.09.2010.)

Ratings assigned by Fitch Ratings

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

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

Ratings assigned by Moody's Investors Service

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

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

Ratings assigned by Standard&Poor's

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

The above-mentioned information is published on the Standard & Poor's web site www.standardandpoors.com

The additional information

For information purposes Financial statements are presented in EUR currency by rate of exchange 1 EUR=0,702804 LVL (30.09.2010 and 30.09.2009).

Statement of comprehensive income/expense

30 September 2010

EUR '000	Group 30/09/2010 (unaudited)	Group 30/09/2009 (unaudited)	Bank 30/09/2010 (unaudited)	Bank 30/09/2009 (unaudited)
Interest revenue	24,641	34,111	24,465	31,146
Interest expense	(25,738)	(25,826)	(25,738)	(25,411)
Net interest income	(1,097)	8,285	(1,273)	5,735
Commission and fee revenue	10,885	9,963	10,818	9,450
Commission and fee expense	(3,644)	(2,107)	(3,876)	(2,565)
Net commission and fee income	7,241	7,856	6,942	6,885
Dividend	18	-	18	143
Profit on sale of securities and foreign exchange trading and revaluation	3,651	9,334	3,628	9,341
Other operating income	2,749	4,546	2,167	4,085
Operating income	12,562	30,021	11,482	26,189
Personnel expense	(10,616)	(12,440)	(9,858)	(11,389)
Depreciation and amortisation expense	(1,998)	(2,407)	(1,816)	(2,200)
Other operating expenses	(11,432)	(12,239)	(10,834)	(10,665)
Total operating expenses	(24,046)	(27,086)	(22,508)	(24,254)
Financial asset impairment Income/ (loss)	2,362	(11,166)	2,349	(7,498)
Impairment of other assets	(908)	-	(963)	-
(Loss) before corporate income tax	(10,030)	(8,231)	(9,640)	(5,563)
Corporate income tax	106	220	863	276
(Loss) for the reporting period from continuing operations	(9,924)	(8,011)	(8,777)	(5,287)
(Profit/ (loss) after tax for the reporting period from discontinued operations	(177)	-	414	-
(Loss) for the reporting period	(10,101)	(8,011)	(8,363)	(5,287)
Foreign currency revaluation reserve	-	(244)	-	-
Net change of revaluation reserve	661	(973)	-	(973)
Total comprehensive (loss)	(9,440)	(9,228)	(8,363)	(6,260)
Attributable to:				
Shareholders of the Bank	(9,440)	(8,569)	(8,363)	(6,260)
Minority interest	-	(659)	-	-
Transferred revaluation reserve to retained earnings	-	-	6,517	-
Net increase in retained earnings	(9,440)	(9,228)	(1,846)	(6,260)
Basic earnings per share (in euro per share)	(0.523)	(0.342)	-	-
Diluted earnings per share (in euro per share)	(0.427)	(0.249)	-	-

Balance sheets

30 September 2010

EUR '000	Group 30/09/2010 (unaudited)	Group 31/12/2009 (audited)	Bank 30/09/2010 (unaudited)	Bank 31/12/2009 (audited)
Assets				
Cash and deposits with the central bank	154,173	63,079	154,173	63,079
Balances due from credit institutions and the central bank	116,177	145,793	115,006	145,473
Loans and advances to customers	491,363	513,921	500,865	524,425
Financial assets at fair value through profit or loss	9,375	8,140	9,375	7,838
Held-for-sale assets	6,207	6,083	6,366	6,083
Held-to-maturity investments	14,757	16,258	14,733	15,805
Investment properties	1,640	1,640	1,640	1,640
Investments in subsidiaries	-	-	22,918	6,150
Intangible assets	1,939	2,187	1,649	1,695
Fixed assets	25,888	27,799	9,795	27,480
Prepayments and accrued income	1,212	1,020	1,187	999
Corporate income tax claims	245	980	245	980
Other assets	29,825	19,538	19,418	9,256
Total assets	852,801	806,438	857,370	810,903
Liabilities				
Balances due to the central bank and credit institutions	1,122	23,379	1,122	23,379
Deposits from the customers	742,622	677,507	745,683	683,573
Debt securities issued	-	5,045	-	5,045
Derivative liabilities	154	244	154	244
Deferred income and accrued expenses	518	2,023	483	1,959
Deferred tax liability	300	1,205	300	1,205
Corporate income tax liability	-	64	-	-
Provisions for off-balance sheet commitments	-	-	665	1,283
Other liabilities	25,302	4,975	24,523	1,586
Subordinated debt	21,774	21,600	21,774	21,600
Liabilities associated with the assets held for sale	53	-	-	-
Total liabilities	791,845	736,042	794,704	739,874
Shareholders' equity				
Paid-in share capital	27,496	27,496	27,496	27,496
Share premium	22,605	22,605	22,605	22,605
Reserve capital and other reserves	891	891	891	891
Revaluation reserve	7,444	6,783	266	6,783
Retained earnings	2,513	12,614	11,408	13,254
Total equity attributable to equity holders	60,949	70,389	62,666	71,029
Minority interest	7	7	-	-
Total shareholders' equity	60,956	70,396	62,666	71,029
Total liabilities and shareholders' equity	852,801	806,438	857,370	810,903

Statement of changes in shareholder's equity

Group EUR '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Foreign currency translation reserve	Retained earnings	Non- controlling interests	Total equity
Balance as at 1 January 2009	17,287	17,501	891	7,632	(458)	15,367	943	59,163
(Loss) for the period	-	-	-	-	-	(7,471)	(540)	(8,011)
Other comprehensive expense	-	-	-	(973)	(125)	-	(119)	(1,217)
Total comprehensive expense	-	-	-	(973)	(125)	(7,471)	(659)	(9,228)
Dividends paid	-	-	-	-	-	(1)	-	(1)
Issue of shares	1,422	712	-	-	-	-	-	2,134
Balance as at 30 September 2009 (unaudited)	18,709	18,213	891	6,659	(583)	7,895	284	52,068
Balance as at 1 January 2010	27,496	22,605	891	6,783	-	12,614	7	70,396
(Loss) for the period	-	-	-	-	-	(10,101)	-	(10,101)
Other comprehensive income	-	-	-	661	-	-	-	661
Total comprehensive income/ (expense) for the period	-	-	-	661	-	(10,101)	-	(9,440)
Balance as at 30 September 2010 (unaudited)	27,496	22,605	891	7,444	-	2,513	7	60,956

Bank EUR '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total equity
Balance as at 1 January 2009	17,287	17,501	891	7,632	16,069	59,380
(Loss) for the period	-	-	-	-	(5,287)	(5,287)
Other comprehensive expense	-	-	-	(973)	-	(973)
Total comprehensive expense	-	-	-	(973)	(5,287)	(6,260)
Dividends paid	-	-	-	-	(1)	(1)
Issue of shares	1,422	712	-	-	-	2,134
Balance as at 30 September 2009 (unaudited)	18,709	18,213	891	6,659	10,781	55,253
Balance as at 1 January 2010	27,496	22,605	891	6,783	13,254	71,029
(Loss) for the period	-	-	-	-	(8,363)	(8,363)
Other comprehensive income/(expense)	-	-	-	(6,517)	6,517	-
Total comprehensive income/(expense)	-	-	-	(6,517)	(1,846)	(8,363)
Balance as at 30 September 2010 (unaudited)	27,496	22,605	891	266	11,408	62,666

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	Group	Bank	Bank
	30/09/2010 (unaudited)	30/09/2009 (unaudited)	30/09/2010 (unaudited)	30/09/2009 (unaudited)
Cash flow from operating activities				
(Loss) before corporate income tax	(10,030)	(8,231)	(9,640)	(5,563)
Profit/ (loss) from discontinued operations	(177)	-	414	-
Depreciation and amortization	1,998	2,407	1,816	2,200
Increase in impairment losses	(2,362)	11,165	(2,349)	7,497
(Gain)/loss on revaluation of foreign currency	(1,439)	4,842	(1,397)	4,817
(Gain)/loss on revaluation of investments	(867)	(182)	(867)	(182)
Loss on revaluation of fixed assets	908	113	963	113
(Gain)/loss from disposals of fixed and intangible assets	3	(1)	3	(1)
(Decrease)/increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities	(11,966)	10,113	(11,057)	8,881
Decrease/(increase) in balances due from the central bank and credit institutions	7,811	19,943	10,869	18,735
(Increase)/decrease in loans and advances to customers	24,914	(33,594)	25,295	(26,177)
Decrease/(increase) in financial assets at fair value through profit or loss	(1,114)	347	(1,416)	734
Increase/(decrease) in financial assets held for trading	(95)	(239)	(297)	(223)
Decrease/ (increase) in available-for-sale financial assets	-	1	-	-
(Increase)/ decrease in prepayments and accrued income	(192)	(181)	(188)	(177)
(Increase)/decrease in other assets	(9,546)	(3,820)	(9,148)	(11,007)
(Decrease)/increase in balances due to the central bank and credit institutions	(571)	(17,609)	(571)	(15,073)
(Decrease)/increase in deposits from customers	65,115	(210,934)	62,110	(209,168)
Net (increase)/decrease in derivative instruments	670	(490)	670	(490)
Increase/(decrease) in deferred income and accrued expenses	(1,505)	1,628	(1,474)	1,505
(Decrease)/increase in other liabilities	20,380	5,521	22,937	4,466
Net increase in cash and cash equivalents from operating activities	93,901	(229,314)	97,730	(227,994)
Corporate income tax paid	(148)	(55)	(41)	-
Net increase in cash and cash equivalents	93,753	(229,369)	97,689	(227,994)
Cash flow from investing activities				
Purchase of fixed and intangible assets	(1,094)	(700)	(864)	(692)
Proceeds from disposal of fixed and intangible assets	248	27	3	10
Proceeds from held-to-maturity investments	8,677	15,662	8,677	15,367
(Purchase) in held-to-maturity investments	(7,176)	(2,094)	(7,604)	(2,094)
Investments in associates subsidiaries, net	-	-	(1,244)	(1,288)
Net in cash and cash equivalents from investing activities	655	12,895	(1,032)	11,303
Cash flow from financing activities				
Paid-in share capital	(5,046)	-	(5,046)	-
Share premium	-	1,422	-	1,422
Repayment of debt securities	-	711	-	711
Change in subordinated debt	(240)	8,640	(240)	8,640
Dividends paid	-	(1)	-	(1)
Net in cash and cash equivalents from financing activities	(5,286)	10,772	(5,286)	10,772
Net in cash and cash equivalents	89,122	(205,702)	91,371	(205,919)
Cash and cash equivalents at the beginning of the period	175,030	343,900	174,712	343,419
Profit/(loss) from revaluation of foreign currency	1,854	(5,420)	1,811	(5,147)
Cash and cash equivalents at the end of the period	266,006	132,778	267,894	132,353

Cash flows from interest and dividends:

EUR '000	Group	Group	Bank	Bank
	30/09/2010 (unaudited)	30/09/2009 (unaudited)	30/09/2010 (unaudited)	30/09/2009 (unaudited)
Interest paid	16,208	14,173	16,208	13,800
Interest received	14,318	22,893	14,142	22,994
Dividends received	18	-	18	143

AS "LATVIJAS KRĀJBANKA"
 Organization chart
 (valid from 01.10.2010)

