

**AS "Latvijas Krājbanka"
Report
for the 1st quarter 2007**

Table of Contents

	Page
Supervisory Council and Management Board of the Bank	3
Consolidated entities	4
Balance sheets	5
Profit and loss statements	6
Operational results	7
Shareholders and Equity	8
Strategy for 2006-2008	9
Risk management	12
Ratings	14
Managerial structure	16

Supervisory Council and Management Board of the Bank

Supervisory Council as at 31 March 2007:

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment/ Reappointment</i>
		28/10/2005 / 29/09/2006/ 23/03/2007
Raimondas Baranauskas	Chairman of the Council	28/10/2005 / 29/09/2006 23/03/2007
Aleksandrs Antonovs	Deputy Chairman of the Council	23/03/2007
Michael Duncan Chartres	Member of the Council	23/03/2007
Dmitrijs Jakovļevs	Member of the Council	23/03/2007
		28/10/2005 / 29/09/2006/ 23/03/2007
Naglis Stancikas	Member of the Council	28/10/2005 / 29/09/2006 23/03/2007
Oļegs Suhorukovs	Member of the Council	23/03/2007
Žoržas Šarafanovičius	Member of the Council	23/03/2007

The number of Council members was increased to 7 members and council elected in the AS "Latvijas Krājbanka" shareholder's meeting dated 23 March 2007. All of the Council members except Veronika Doļenko were reappointed and Michael Duncan Chartres, Dmitrijs Jakovļevs, Žoržas Šarafanovičius were appointed. There have been no other changes in the composition of Supervisory Council from 1 January 2007 till the publication of this report.

Management Board as at 31 March 2007:

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment/ Reappointment</i>
Mārtiņš Bondars	Chairman of the Board/ President	03/07/2006
Dzintars Pelcbergs	First Deputy Chairman of the Board/ First Vice President	02/01/2006
Svetlana Ovčiņņikova	Member of the Board	19/06/2006
Andrejs Surmačs	Member of the Board	28/10/2005
Ēvalds Trukšans	Member of the Board	27/12/2005
Jānis Tukāns	Member of the Board	13/04/2006

There have been no other changes in the composition of the Management Board from 1 January 2007 till the publication of this report.

Consolidated entities
31 March 2007

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.	Ieguldījumu pārvaldes sabiedrība "Astra Krājfondi", 40003605043	LV, Rīga, Jēkaba iela 2	ISA	100	100	MS
2.	Ieguldījumu pārvaldes sabiedrība "LKB Asset Management", 40003818124	LV, Rīga, Jēkaba iela 2	ISA	100	100	MS
3.	SIA "Krājinvestīcijas", 40003687374	LV, Rīga, Jēkaba iela 2	CKS	100	100	MS
4.	SIA "LKB līzings, 40003887450	LV, Rīga, Jēkaba iela 2	CFI	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.

Balance sheets
31 March 2007

Name of the Item	Reporting period (unaudited)	Reporting period (unaudited)	Previous reporting year (audited)	Previous reporting year (audited)
LVL'000	Group	Bank	Group	Bank
Cash and balances due from the Bank of Latvia	51 597	51 597	69 659	69 659
Due from credit institutions and central banks	26 350	26 350	16 061	16 061
Available-for-sale assets	1 277	739	0	0
Financial assets designated at fair value through profit or loss	34 325	34 863	17 577	17 577
Loans and advances to customers	252 637	252 762	274 452	274 592
Held-to-maturity investments	14 503	14 503	14 495	14 495
Accrued income and prepayments	497	497	406	406
Fixed assets	11 507	11 475	10 389	10 359
Intangible assets	868	748	906	786
Investment in subsidiary and associate	0	606	0	486
Tax assets	659	830	675	675
Other assets	9 333	9 142	514	481
Total assets	403 553	404 112	405 134	405 577
Due to central banks	0	0	0	0
Due to credit institutions	6 361	6 361	7 150	7 150
Available-for-sale financial liabilities	247	247	254	254
Financial liabilities designated at amortised cost of acquisition value	364 901	365 354	373 059	373 461
Accrued expenses and deferred income	283	283	1 277	1 277
Provisions	685	680	0	0
Deferred tax liability	1 680	1 672	1 473	1 473
Other liabilities	4 375	4 367	416	398
Total liabilities	378 532	378 964	383 629	384 013
Capital and reserves	25 021	25 148	21 505	21 564
Total capital and reserves and liabilities	403 553	404 112	405 134	405 577
Off-balance items				
Contingent liabilities	1 746	1 746	1 713	1 713
Commitments	16 801	16 801	38 706	38 706

Profit and loss statement
31 March 2007

Name of the Item	Reporting period 31.03.07 (unaudited)	Reporting period 31.03.07 (unaudited)	Previous reporting year 31.03.06 (unaudited)	Previous reporting year 31.03.06 (unaudited)
	Group	Bank	Group	Bank
LVL'000				
Interest income	5 603	5 627	3 419	3 419
Interest expense	(2 824)	(2 827)	(1 317)	(1 320)
Dividend income	0	0	0	0
Commission income	2 006	1 991	1 629	1 622
Commission expenses	(441)	(440)	(336)	(335)
Profit/loss Net of financial assets and liabilities designated at fair value through profit or loss	(71)	(71)	103	106
Profit/loss from currency exchange trading and revaluation	410	410	302	302
Profit/loss from derecognition of property, equipment, investments property and intangible assets	(3)	(3)	0	0
Other operating income	223	222	251	251
Other operating expenses	(85)	(64)	(50)	(50)
Administrative expenditure	(3 459)	(3 418)	(2 697)	(2 664)
Depreciation and amortisation of intangible assets and fixed assets, correction in their value	(445)	(445)	(446)	(445)
Result of formation impairment losses	(218)	(218)	(73)	(73)
Profit/loss of the reporting period	696	764	785	813

Operational results
31 March 2007

Name of the Item	Reporting period (unaudited)	Previous reporting year (audited, adjusted)
Return on equity (ROE) (%)	13,60	19,57
Return on assets (ROA) (%)	0,75	1,31

Shareholders and Equity

	Shares
AB "Banka SNORAS"	7 545 442
AS "West Investment"-	868 286
Gemini Investment Fund Ltd	772 695
Other	719989
Total shares with voting rights	9906412
Shares without voting rights	2834
Total	9909246

	% of total paid-in capital
AB "Banka SNORAS"	76.14 %
AS "West Investment"-	8.77 %
Gemini Investment Fund Ltd	7.80 %
Other	7.29 %
Total	100%

The nominal value of AS "Latvijas Krājbanka" share – 1 LVL.

The Development Strategy Prospectives for the 2006-2008

Bank's mission

The JSC "Latvijas Krājbanka" started the year 2006 with the most precisely defined goals and tasks, as well as prospectives of the shareholders. For the first time in the privatization process of the Bank the main shareholder – the SNORAS bank of the KONVERSgroup - was appointed and the Bank's membership to the group was precisely defined.

The precise positioning of the shareholder provides the Bank with the opportunity to define its strategic goals for the future (the period of 2006-2008):

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

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

Considering the established goal to redirect the Bank to retrieving the market positions, the year 2006 was aimed at realizing the present situation and possibilities for the development of the strategy for the period of 2007. - 2011, prospectives define the positioning of the Bank in the context of the strategic goals and tasks.

The general strategic prospectives of the Bank

1. Increasing of the capital and improving the capitalization indicator -
 - 1.1. The Bank's capital increased by more than 2,5 times, amounting at least 50 million lats in the end of 2008 (TACTICS – emitting additional shares, distributed among the shareholders on undivided earnings account)
2. Organization structure and personnel policy –
 - 2.1. Optimizing and adjustment of the Bank's organizational structure
 - 2.1.1. Ensuring the motivating and transparent financial structure,
 - 2.1.2. Ensuring the optimal credit risk and management department,
 - 2.1.3. Defining the earning and support units and collaboration,
 - 2.1.4. Optimizing administrative expenditures, proceeding to separate customer service and trade from supporting functions, which will be centralized and provided as service to the earning departments,
 - 2.2. Decentralization of the decision making to the heads of the Bank's departments and increasing the responsibility,
 - 2.3. Personnel policy,
 - 2.3.1. Development of the loyalty and motivation system,
 - 2.3.2. Regular increase of the earnings corresponding to the trade, emphasizing the link between the increase of the variable part of the earnings and the work quality and results,
 - 2.3.3. As the result of centralization, the amount of employees and heads of the departments not connected to the trade and customer service will be decreased on the account of the employees working in the support departments,
 - 2.3.4. The amount of human resources in the department network will be defined by the KSC efficiency indexes and the network development concept,
 - 2.3.5. Bank's motivation programs without monetary motivating instruments will preserve and non-monetary motivation instruments will be developed, paying direct attention to the middle term and long-term motivation schemes (life insurance, half year and annual salaries, including savings).
3. Risk politics and monitoring – priority to the risk management, particularly –
 - 3.1. State risk,
 - 3.2. Financial risk,
 - 3.3. Credit risk,
 - 3.4. Operation risk management.

4. Development of the management IT system –
 - 4.1. Implementation of the new operating system FORPOST,
 - 4.2. Detailing and automation of the process of accounting budgeting and administrative operations (selection and implementation of the system of accounting administrative operations),
 - 4.3. Selection and implementation of the analytical risk of the Bank, its departments and product profitability and efficiency (possibly MICROSTRATEGY or analogue),
 - 4.4. The financial operations and efficiency of the economic processes shall not be controlled only by the supporting departments and the Bank's Management but the heads of all the departments.
5. Investment policy –
 - 5.1. Securities of the Republic of Latvia, the Bank and corporate securities,
 - 5.2. Parts of the funds of the rated investment funds management,
 - 5.3. States of the A zone state and corporate securities with the rating higher than BBB-/Baa3,
 - 5.4. Corporate securities of other countries with ratings higher than BBB-/Baa3 on the basis of maximum precautionary and approving limits for each eminent separately, considering the commonly accepted limits for the particular country.
6. Development of Resource Base and crediting –
 - 6.1. On the basis of the capital development and planned increase of the amount of customers and development of other deposit products the Bank plans to increase the credit portfolio up to 307 million LVL,
 - 6.1.1. Activating commercial business loan for the legal entities and private individuals,
 - 6.1.2. Proportional development of other types of crediting ,
 - 6.1.3. Dynamically aggressive policy of increasing resources, increase the amount of deposit funds up to 408 million LVL.
 - 6.1.4. balances due to banks up to 32 million LVL,
 - 6.1.5. The bank's mortgage security emission and placement at least for the amount of 27 million LVL,
 - 6.1.6. Preparation of the bank's Eurobond emission,
 - 6.2. Resource attraction tools,
 - 6.1.1. by optimization and extension of the Bank's network in Latvia,
 - 6.1.2. by activation of corporate client attraction, including increase of business crediting amounts,
 - 6.1.3. by activating collaboration with international financial institutions in funding attraction.
7. Other product development –
 - 7.1. network product development,
 - 7.2. Individual product development, appropriate for VIP and individual service,
 - 7.3. development of product package cross selling product groups,
 - 7.4. Product or product group pricing policy (antidumping policy), profitable for the Bank.
8. Client policy –
 - 8.1. Target markets,
 - 8.1.1. Latvia,
 - 8.1.2. Baltic states,
 - 8.1.3. EU and in collaboration with financial group also Russia (applying precaution policy and the best usage policy of imposed KYC and AML experience),
 - 8.2. Target client,
 - 8.2.1. Latvian residents,
 - 8.2.1.1. individuals,
 - 8.2.1.2. legal entities,
 - 8.2.1.2.1. small and medium enterprises,
 - 8.2.1.2.2. using crediting possibilities of the financial group also big enterprises,
 - 8.2.1.3. Baltic and EU individuals and legal entities,
 - 8.2.1.4. Receiving extra compliance and analytical aid from the financial group – individuals and legal entities – residents of the financial group participant countries.

9. The Bank's network and sale channels –
 - 9.1. optimization of existing CSC network, using Minibank possibilities in less active places,
 - 9.2. the network expansion in Latvia, using the Minibank development project,
 - 9.3. EPS channel and tool development.
10. International development policy –
 - 10.1. according to the bank's business development demand,
 - 10.2. in collaboration with the financial group, implementing common development projects.
11. Development and maintenance of the bank's operational systems and information technologies –
 - 11.1. Change of the bank's operational system (migration to FORPOST),
 - 11.2. introduction of extra VIS tools,
 - 11.3. IT technology support for IT and operational risk management and minimization,
 - 11.4. EPS development.
12. Development and maintenance policy of tangibly technical infrastructure –
 - 12.1. real estate policy,
 - 12.1.1. real estate retaining as the Bank's or the financial group's property,
 - 12.1.2. optimization of property utilization (rent, hire),
 - 12.2. transfer assessment of financially capacious support functions to outsourcing.
13. The Bank's image development -
 - 13.1. The bank's brand update – the unified colour and visual language definition,
 - 13.2. The Bank's network division` visual image update,
 - 13.3. Participation in social life and charity (image development on the state and regional scale) -
 - 13.3.1. direct charity,
 participation in events – acknowledgement of the Bank's social activity.

Risk management

The Bank has developed a system for the identification, supervision and management of its main financial risks, which has been approved by the Bank's Board and Council. Supervision and management of this system is performed by the Asset and Liabilities Committee. The following policies are established and approved within the risk management system:

- Control policy over risk transactions
- Liquidity management policy
- Credit policy
- Interest rate risk management policy
- Trade portfolio policy
- Foreign exchange risk management policy
- State risk management policy.

Credit risk

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

The risk which can arise in the event that the Bank's partners in derivative and other financial instrument transactions might default on their obligations is monitored on an on going basis. To manage credit risk of derivative instruments, the Bank deals with counterparties of good credit standing. The Bank's credit policy identifies the requirements for the credit risk mitigation.

Bank manages the credit risk by setting the exposure limits to counterparty, groups of counterparties, industry or country. The Credit policy defines the credit risk mitigation factors – types of collateral, defines the principles of evaluation and adequacy of collateral, loan term limitation, the processes of loan acceptance, issuance and monitoring. The Board approves the mitigation factors at least once a year.

Bank issues mainly loans to residents – private individuals, small and medium size entities.

Liquidity risk

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board.

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Funds are raised using instruments including deposits, subordinated liabilities and share capital. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risks by identifying and monitoring the changes in funding required to meet business goals.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Market risk

Market risk is financial risk related to future value of assets and liabilities influenced by changes in interest rates, currency exchange rates and changes in commodity and share prices. Bank can be threatened by changes in interest rates and currency exchange rates. These fluctuations Bank's income can increase and decrease. The limitation of fluctuation is defined in Bank's "Foreign exchange risk management policy" and "Interest rate risk management policy". Risk limits is revised on regularly basis.

Interest rate risk represents the impact of changes in the market rates on the Bank's financial position. Daily banking activities involve interest rate risk influenced by repayment terms of assets and liabilities related to interest income and expenses or date of revision of interest rates. The Bank seeks to control this risk through the activities of the Bank's Treasury Department and Risk department.

Management Board approves the rates for loans and deposits as well as guidelines to investment portfolio.

The "The open currency position management policy" set the limits for open position for each currency and as whole. The Treasury department ensure the Bank's operation within approved limits. The Risk Department controls the compliance with the above mentioned policy.

Up to necessity the Market risk is reduced by using derivatives

Derivatives

The financial instruments used by the Bank include forward and swap agreements whose value vary together with foreign currency exchange rate fluctuations and changes in interest rates. The risk in the transactions mentioned before is the possibility that the parties involved in the transactions might refuse to fulfil their obligations, as well as the market risk that the agreement value will decrease as a result of unfavourable changes in interest rates.

Ratings

The three leading rating agencies *Fitch Ratings*, *Moody's Investors Services*, *Standard&Poor's* has approved ratings for Krājbanka

Fitch Ratings ratings

Rating agency *Fitch Ratings* approved ratings to Krājbanka on 18 September 2006:

– Long-term liabilities in foreign currency	B+
– Short-term liabilities in foreign currency	B
– development forecast	Stable
– individual rating	D
– supporting rating	4

Influencing risk factors

– country rating on long term liability in foreign currency	A-
– country rating on long term liability in national currency	A
– country credit rating	AA-
– development forecast	Stable

Rating substantiation

The approved rating to Krājbanka reflects the relative small role in Latvian bank sector, average level of profitability, which has trend to rise, and risks related to rapid growing lending including in new regions. The capitalization is evaluated as low and liquidity has a trend to decrease.

In September 2005 Bankas Snoras (Lithuania) (rating "BB-", rating forecast – negative) acquired substantial share capital of Krājbanka. Bankas Snoras is controlled by Converbank CJSC (Russia), which rating is "CCC+". The purchase of two banks in Baltic region is the part of Converbank CJSC development strategy outside the Russia – EU countries.

At the end of 2005 Assets of Krājbanka formed only 2.2% from total Latvian Bank assets, meantime the bank has the widest client service center network in the country. The strategy of the Bank is based on maintenance of network with emphasize on lending of private individuals. Bank still realizes this strategy. In addition Bank wants to expand in Russia and CIS countries in lending and deposits. In order to realize this goal Krājbanka plans to utilize the experience of Converbank CJS.

The profitability of the Bank increased due to increase of loan portfolio but expenses remain in comparative high level. Bank needs to develop in order to improve the profitability, and economical growth of the Latvia can ensure the development of the banks. Regarding the increase of lending the risk of increase of provisions heightens, but this problem has not arisen yet.

The quality of loan portfolio is comparatively good and the level of collaterals for bad loans is sufficient.

The market risk is low.

The decreasing liquidity trend is caused by increase of loan portfolio; Bank's capitalization is evaluated as low.

Supporting possibilities

Supporting rating reflects the support that Bank could receive if necessary from its main shareholder Bankas Snoras.

Development forecast and main influencing risk factors

Krājbanka's rating forecast is stable. Bank rating forecast can be changed to negative if the share capital will not be increased sufficiently and timely in order to support the growth. The increase of investments in Russia and CIS could lead to changes of rating to negative.

To increase the rating it is necessary to increase the capitalization level and promote the growth of Bank's assets.

The above-mentioned information is published in web page of *Fitch Ratings* www.fitchratings.com.

Moody's Investors Service ratings

Rating agency *Fitch Ratings* approved ratings to Krājbanka on 24 February 2007:

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

Moody's Investors Service increased the "Latvijas Krājbanka" credit ratings due to changes of new rating methodology.

The long-term deposit rating in national and foreign currencies was increased from Ba3 to Ba2.

Moody's points that new methodology (joint default analysis, JDA methodology) allows to evaluate the banks financial stability excluding the support from outside they could receive from their shareholders.

Information mentioned above is published in *Moody's Investors Service* web page www.moodys.com

Standard&Poor's ratings

Rating agency *Standard&Poor's* approved ratings to Krājbanka on 13 March 2007

□	long-term deposit rating	B
□	short-term deposit rating	B
□	development forecast	Stable

Rating agency Standard & Poor's approved long-term deposit rating as "B" and short-term deposit rating as "B". The Banks development forecast evaluated as stable.

Rating agency positively evaluated the wide network, publicity, resource base, liquidity as well as innovative marketing strategy and continuously improvements of risk management.

Standard & Poor's points out positive improvements since the change of management in 2005. Agency positively evaluated the strategy of new management.

AS "LATVIJAS KRĀJBANKA"
Managerial Structure

