

AS Latvijas Krājbanka

Consolidated Annual Report

**for the year ended 31 December
2007**

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Statement of the Management

In 2007 Latvijas Krājbanka (further, Krājbanka or the Bank) successfully continued to strengthen its positions as one of the leading commercial banks in Latvia. Latvijas Krājbanka as a bank can be proud of more than 80 years of experience and is continuing dynamic development within the modern market conditions. The bank's success and growth are proved not just by its financial indicators that have been growing year by year but also by research and polls placing Latvijas Krājbanka in high positions by the bank's recognition, security, the quality of provided services, and other factors.

Financial data

On 31 December 2007 the audited profit of Krājbanka Group accounted for LVL 4,954 thousand after-tax, which is by LVL 913 thousand or 22.59% more than as of 31 December 2006. On 31 December 2007 the total amount of the Group's assets represented LVL 671 million marking the increase of LVL 266 million or 65.7% in comparison with the beginning of 2007. The main growth of the Group's resource base is due to non-Monetary Financial Institution deposits which increased by LVL 260 million or 79.7% reaching LVL 586 million over the 12 months of 2007. Such a significant growth of resources promoted the increase of the Bank's non-MFI credit balance by LVL 107 million or 55.9% that facilitated reaching the balance of LVL 298 million by the end of the accounting period. Moreover, the asset item of balances due from credit institutions experienced a significant growth accounting for the increase of LVL 175 million or 176.1% and by the end of the year reached the balance of LVL 275 million.

The Krājbanka Group's profit increase over the 12 months of 2007 was promoted by the net interest income growth of LVL 4,292 thousand or 37.5% (compared to 12 months of 2006), net commission and fee income growth by LVL 823 thousand or 16.7% and increase of the profit on sale of securities and foreign exchange trading by LVL 1,523 thousand or 70 %.

It should be noted that in order to strengthen competitiveness in the labour market, the amount of staff expense of the Krājbanka Group was increased significantly – by LVL 2,205 thousand or 30.3 %. Under the influence of the high inflation rate in the country and the rise in the group's business volume, the amount of other operating expenses has grown substantially as well.

Despite the severe competition existing in the sector of Latvian commercial banks, Krājbanka retained stable market positions with a growth trend. Comparing to the situation on 31 December 2006, Krājbanka's market share by assets grew from 2.6% to 3.1%, by deposits – from 4.2% to 5.7%, and by granted loans – from 1.8% to 2.0%. Overall Krājbanka's assets, deposits and loans growth rate during 12 months of 2007 continued to outperform the comparative figure growth in the banking sector.

Major achievements and decisions

During the first half of 2007 the Bank moved its corporate headquarters to the newly built administrative building situated at 15 Jāņa Daliņa Street, Riga, LV-1013. The building is constructed in the style of functionalism that represents a topical tendency for the construction of financial sector buildings. Latvijas Krājbanka's building has a perfect cube form embraced by a curved shape of concrete. Thus it has become an attractive landscape accent of the city, at the same time emphasizing the stability and the certain conservatism - fully bank related characteristics.

In January 2007 year the public offer of the Bank's newly emitted ordinary and preference shares ended successfully with all 800 000 ordinary shares and 2,834 preference shares being placed for the total amount of LVL 2.8 million.

In accordance with the resolution of the extraordinary meeting of the shareholders held on 15 October 2007, the Bank has issued 2,240 thousand ordinary bearer shares. The Bank's shareholders and investors subscribed for all 2,240 thousand ordinary shares and paid in full the sales price set as LVL 5 per share.

As of 31 December 2007 the Bank's registered and paid-in capital comprised LVL 12,149 thousand (2006: LVL 9,106 thousand). The share capital consists of 12,149,246 shares, including 12,146,412 ordinary bearer shares and 2,834 "A" category preference bearer shares. Nominal value of one share is 1 (one) lat.

Latvijas Krājbanka has bought the joint-stock company AS "Pirmais atklātais pensiju fonds" (First Open Pension Fund), which was previously owned by the Commercial Bank "Baltikums". Thus, Krājbanka has become the holder of 100% of the company's shares. A new board and council were elected for the company. It is planned to change the company's name and the range of offered products. Currently the company is working on the development of two new pension plans targeted at the existing clients and also new ones interested in pension plans.

Moreover, next year Latvijas Krājbanka will continue supporting one of the major Latvian cultural events - the Latvian Nationwide Song and Dance Celebration. On 9 July 2007 the letter of intent was signed, certifying the support of our Bank to the Latvian Nationwide Song and Dance Celebration 2008. Latvijas Krājbanka will provide identification cards to every participant of the Song and Dance Celebration. Latvijas Krājbanka is ready to undertake the responsibility and will do everything possible to make the celebration unforgettable to Latvian residents.

Major news on Bank's products and services

In January 2007 two investment funds were established - "LKB Obligāciju fonds" ("LKB Bond Securities Fund") and "LKB Sabalansētais fonds" ("LKB Balanced Fund"), which are managed by company "Astra Krājfondi" of the Latvijas Krājbanka Group. In November 2007, another investment fund - LKB Akciju fonds" ("LKB Share Fund) was established.

By the end of December the number of clients of Latvijas Krājbanka Group's company "Astra Krājfondi" pension plans accounted for more than 64 000, but the total assets of the 2nd tier pension plans managed by "Astra Krājfondi" comprised more than LVL 11.1 million.

On 7 January 2007 Latvijas Krājbanka established a subsidiary company "LKB Līzings". From the beginning of the year 2007 up to June "LKB Līzings" made all the necessary preliminary work in order to ensure competitive leasing service. Active sale of leasing services was launched in June 2007, and by the end of the month it had reached the portfolio amounting to LVL 757,701. As of 31 December 2007, the leasing portfolio accounted for LVL 9,545,862, which proves that during half a year the portfolio has increased 12.6 times.

The Bank continued to expand the range of broker services. Krājbanka offers its clients different transactions with financial instruments not only in the Baltic stock market, but also in foreign stock markets (Europe, the USA, Russia, etc).

Latvijas Krājbanka has expanded its investment offer to the clients – in October the distribution of Raiffeisen Capital Management (RCM) company's funds was launched. RCM offers more than 20 different investment funds, among which even the most demanding investor will be able to find the most appropriate one.

The number of foreign exchange transactions at Krājbanka has grown rapidly. Clients are offered favourable terms for forward foreign exchange rate and currency swap instruments. The attraction of new co-operation partners and increase in credit limits has facilitated even more competitive prices for the Bank's clients, as well as more effective management of the Bank's liquid assets.

The consumer loan service sector continues rapid development in the market and the Consumer loan offered by Latvijas Krājbanka plays a considerable role in its expansion.

Due to the stable growth of portfolio as well as intensive work with customers and implementation of improved customer analysis and monitoring processes, total portfolio indicators maintained a stable position and overdue debts considerably decreased. Minimum reserves for overdue loans are still below 1%, which is an excellent ratio in bank sector.

Latvijas Krājbanka will continue active work in the area of private crediting by implementing new ideas, demonstrating different work approaches and by offering its clients modern and convenient crediting services.

Latvijas Krājbanka Online bank was acknowledged to be the second best internet bank among 18 commercial banks in Latvia. According to the research by market consultation company "Metasite Business Solutions" on internet banks in the Baltic region, this year Latvijas Krājbanka`s Online bank has experienced the most rapid rise from being the sixth.

According to the market research and consultation company "Euro Data", the number of Latvijas Krājbanka online bank users has grown most rapidly among all Latvian banks. When compared to 2005, the number of Latvijas Krājbanka online bank users has grown by 60% and the total number of users has reached 96,000. Latvijas Krājbanka continues implementing different projects in order to facilitate clients to perform transactions not only by using our wide Client service centre network, but also the Online bank and Telephone banking system.

In 2007 Latvijas Krājbanka also ranked first by the number of client service centres in the banking sector in Latvia. In October in Jaunkalsnava the 100th client service centre was opened. For the clients` convenience a new clients service centre was opened in Riga, in the shopping park "Alfa". Similarly, next year considerable efforts will be devoted to the optimization and development of client service centres to provide for the improvement of client service quality and for the increase of the number of service centres throughout Latvia.

On 31 December 2007 Latvijas Krājbanka had 107 client service centres, 29 of which were mini banks. Besides, the bank installed 31 new ATMs, and by the end of December their number reached 177. Latvijas Krājbanka continues expanding the Bank's network throughout Latvia.

Public activities

The fact that the Bank follows the latest tendencies is being proved not only by good financial indicators and development level of bank technologies, but also by its successful social activities. The success was confirmed by residents` polls, in which Latvijas Krājbanka ranked in top positions by the bank's recognition, security and other categories.

There has been a significant increase in the reputation of the Bank. In the Top of Enterprises, designed by newspaper "Diena" in cooperation with the public relations company "Nords Porter Novelli", Latvijas Krājbanka ranked 37th, leaving behind the majority of banks and enterprises working in the economic sector. In comparison with the previous year Latvijas Krājbanka has climbed 4 positions up in the reputation Top.

STATEMENT OF THE MANAGEMENT

In 2007 corporate estimators from the financial company "Laika Stars" determined the TOP 100 of Latvia's most valuable enterprises. Latvijas Krājbanka ranked 23rd among the most valuable enterprises and 8th among the most valuable banks in Latvia.

Latvijas Krājbanka is the second best-known bank in Latvia. According to the bank research made by the market and public opinion research centre SKDS in January 2007, 83% Latvian residents know Latvijas Krājbanka. At the same time the residents consider Latvijas Krājbanka one of the most reliable banks in Latvia. The sociological poll results made by the Economic Research Institute ranked Latvijas Krājbanka the fourth with 27.6%.

During 2007 Latvijas Krājbanka continued strategic promotion of the Latvian musical and cultural life by supporting several important cultural events. Latvijas Krājbanka was the main sponsor of the "Latvian Annual Music Award Ceremony 2006" and has supported other important musical and cultural life events. The rock-opera "The Chosen One" ("Izredzētais") and the concert of songs by Latvian composer Imants Kalniņš "Imanta Kalniņa Dziesmu spēles" were organized in cooperation with Latvijas Krājbanka.

In cooperation with Vītols Fund, Latvijas Krājbanka has established a scholarship, which will be awarded to students from different regions of Latvia every year. This year four students from the historical regions of Latvia - Vidzeme, Zemgale, Kurzeme and Latgale - were granted the scholarship.

In the first half of 2007 Latvijas Krājbanka demonstrated achievements not only in the financial sector, but also in sports. In the traditional Bank Basketball Cup Tournament, which since 1993 has become a tradition Latvijas Krājbanka won the championship cup. Latvijas Krājbanka has signed the collaboration agreement with the basketball club "Valmiera" which is a promising team showing great play not only in Latvia, but also in the whole Baltic region.

In order to help the state in solving a topical problem and minding its clients and their security, Latvijas Krājbanka in collaboration with the State Police presented reflectors to the residents throughout Latvia. This campaign gained response in the society and mass media. During the campaign 20,000 reflectors were distributed to the residents during the police raids on highways and in the client service centres of Latvijas Krājbanka throughout Latvia.

The reasons behind the success of Latvijas Krājbanka lie firstly in the Bank's history. Latvijas Krājbanka is the oldest bank in Latvia and has kept its values, and it is not necessary to reaffirm them. At the same time Latvijas Krājbanka has proved to be a new, dynamic and modern bank. Not only the good financial results and development level of the Bank's technologies but also its successful social activities suggest that the bank follows the latest trends of banking.

Raimondas Baranauskas
Chairman of the Council

Mārtiņš Bondars
Chairman of the Board/ President

Riga,
29 February 2008

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

As at the date of signing these financial statements, the members of the Supervisory Council of the Bank were as follows:

Supervisory Council

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

Based on the shareholder meeting decision dated 23.03.2007, the number of Council members was increased from 5 to 7.

Veronika Doļenko was not reappointed.

There have been no other changes in the composition of the Supervisory Council from 31 December 2007 until the date of signing these financial statements.

As at the date of signing these financial statements, the members of the Management Board of the Bank were as follows:

Management Board

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

Changes in the composition of the Management Board of the Bank from 1 January 2007 until the date of signing these financial statements:

During the reporting period the following members of the Board resigned:

Ēvalds Trukšāns	Member of the Board	18/07/2007
Jānis Tukāns	Member of the Board	01/06/2007

There have been no other changes in the composition of the Management Board from 31 December 2007 until the date of signing these financial statements.

Appointment and dismissal of the Board members can be made in accordance with Commercial law and statutes of the Bank. The Council has right to appoint and dismiss the Board members. Board members are elected for the 3 year period and the Council elects the chairman and the first deputy chairman of the Board from Board members.

The Board manages the Bank in accordance with laws of Republic of Latvia, statutes and decisions of the shareholders. The Council approval is necessary for certain Board decisions. They refer to approval of policies, budget and the operating plan, operations with real estate, opening of branches and representative offices, acquisition and disposal fully or partly of investment in associates and making decisions that is in the scope of the associate's shareholders, loan policy for employees, appointment and dismissal of the Board members in associates, remuneration of the employees of internal audit department.

The Board does not have rights to make the decisions regarding any issuance or buy back of Bank's shares. This is the scope of the shareholders' meeting.

AS LATVIJAS KRĀJBANKA

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of AS Latvijas Krājbanka (hereinafter - the Bank) is responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 9 to 57 are prepared in accordance with the source documents and present fairly the financial position of the Bank as of 31 December 2007, the results of its operations, changes in shareholders' equity and cash flows for the year then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by European Union on the going concern basis. 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.

Raimondas Baranauskas
Chairman of the Council

Mārtiņš Bondars
Chairman of the Board/ President

Rīga,
29 February 2008

AS LATVIJAS KRĀJBANKA
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

LVL '000	Notes	Group 2007	Group 2006	Bank 2007	Bank 2006
Interest revenue	3	32,521	18,239	32,494	18,239
Interest expense	3	(16,772)	(6,782)	(16,794)	(6,790)
Net interest income		15,749	11,457	15,700	11,449
Commission and fee revenue	5	7,630	6,636	7,438	6,599
Commission and fee expense	5	(1,878)	(1,707)	(1,867)	(1,705)
Net commission and fee income		5,752	4,929	5,571	4,894
Dividend revenue		-	-	8	6
Profit on sale of securities and foreign exchange trading and revaluation	6	3,699	2,176	3,699	2,180
Other operating income	7	1,154	1,018	1,148	1,018
Operating income		26,354	19,580	26,126	19,547
Personnel expense	8	(9,473)	(7,268)	(9,231)	(7,233)
Depreciation and amortisation expense	21, 22	(1,918)	(1,712)	(1,893)	(1,707)
Other operating expenses	9	(8,076)	(5,386)	(7,926)	(5,328)
Total operating expenses		(19,467)	(14,366)	(19,050)	(14,268)
Impairment losses	10	(1,780)	(1,186)	(1,780)	(1,186)
Reversal of impairment losses	10	766	667	766	667
Profit before corporate income tax		5,873	4,695	6,062	4,760
Corporate income tax	11	(919)	(654)	(912)	(654)
Profit for the reporting year		4,954	4,041	5,150	4,106
Attributable to:					
Shareholders of the Bank		4,954	4,041	5,150	4,106
Basic earnings per share (in lats per share)	12	0.508	0.444		
Diluted earnings per share (in lats per share)	12	0.396	0.343		

The accompanying notes on pages 14 to 57 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
BALANCE SHEET
AS AT 31 DECEMBER 2007

LVL '000	Notes	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Assets					
Cash and deposits with the central bank	13	48,151	69,659	48,151	69,659
Due from credit institutions and the central bank	14	275,008	99,594	275,008	99,594
Loans and advances to customers	15	297,681	190,919	298,247	191,059
Financial assets at fair value through profit or loss	16	21,985	17,577	21,985	17,577
Held-to-maturity investments	18	4,747	14,495	4,747	14,495
Investments in subsidiaries	19	-	-	640	486
Intangible assets	21	1,200	906	1,067	786
Fixed assets	22	19,461	10,389	19,127	10,359
Prepayments and accrued income		648	406	626	406
Other assets	23	2,462	1,189	2,220	1,156
Total assets		671,343	405,134	671,818	405,577
Liabilities					
Due to the central bank and credit institutions	24	26,668	46,390	26,668	46,390
Deposits from the customers	25	586,129	326,144	586,571	326,546
Derivative liabilities	17	456	254	456	254
Debt securities issued	26	3,593	-	3,593	-
Deferred income and accrued expenses	27	1,815	1,277	1,767	1,277
Corporate income tax liability		962	718	955	718
Other liabilities	28	949	416	782	398
Deferred tax liability	11	848	755	848	755
Subordinated debt	29	8,913	7,675	8,913	7,675
Total liabilities		630,333	383,629	630,553	384,013
Shareholders' equity					
Paid-in share capital	30	12,149	9,106	12,149	9,106
Share premium	30	12,300	1,323	12,300	1,323
Reserve capital and other reserves	30	626	626	626	626
Revaluation reserve	30	5,352	2,839	5,352	2,839
Retained earnings		10,583	7,611	10,838	7,670
Total issued capital and reserves attributable to equity holders		41,010	21,505	41,265	21,564
Total shareholders' equity		41,010	21,505	41,265	21,564
Total liabilities and shareholders' equity		671,343	405,134	671,818	405,577

The accompanying notes on pages 14 to 57 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

Group LVL '000	Notes	Attributed to the shareholders' of the Bank						Total shareholders' equity and minority interest
		Paid – in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Minority interest	
Balance as at 31 December 2005		9,106	1,323	626	2,830	3,565	125	17,575
Change in deferred tax related to revaluation reserve		-	-	-	9	-	-	9
Total income and expense for the year recognised directly in equity		-	-	-	9	-	-	9
Profit for the year		-	-	-	-	4,041	-	4,041
Total income and expense for the year		-	-	-	9	4,041	-	4,050
Adjustment in the result of minority interest		-	-	-	-	5	(125)	(120)
Balance as at 31 December 2006		9,106	1,323	626	2,839	7,611	-	21,505
Change in deferred tax related to revaluation reserve	22	-	-	-	(136)	-	-	(136)
Revaluation charged	22	-	-	-	2,649	-	-	2,649
Total income and expense for the year recognised directly in equity	22	-	-	-	2,513	-	-	2,513
Profit for the year		-	-	-	-	4,954	-	4,954
Total income and expense for the year		-	-	-	2,513	4,954	-	7,467
Dividends paid		-	-	-	-	(1,982)	-	(1,982)
Issue of shares		3,043	10,977	-	-	-	-	14,020
Balance as at 31 December 2007	30	12,149	12,300	626	5,352	10,583	-	41,010

AS LATVIJAS KRĀJBANKA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

Bank LVL '000	Notes	Paid – in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings attributed to the shareholders' of the Bank	Total shareholders' equity
Balance as at 31 December 2005		9,106	1,323	626	2,830	3,564	17,449
Change in deferred tax related to revaluation reserve		-	-	-	9	-	9
Total income and expense for the year recognised directly in equity		-	-	-	9	-	9
Profit for the year		-	-	-	-	4,106	4,106
Total income and expense for the year		-	-	-	9	4,106	4,115
Balance as at 31 December 2006		9,106	1,323	626	2,839	7,670	21,564
Change in deferred tax related to revaluation reserve	22	-	-	-	(136)	-	(136)
Revaluation charged	22	-	-	-	2,649	-	2,649
Total income and expense for the year recognised directly in equity	22	-	-	-	2,513	-	2,513
Profit for the year		-	-	-	-	5,150	5,150
Total income and expense for the year		-	-	-	2,513	5,150	7,663
Dividends paid		-	-	-	-	(1,982)	(1,982)
Issue of shares		3,043	10,977	-	-	-	14,020
Balance as at 31 December 2007	30	12,149	12,300	626	5,352	10,838	41,265

The Shareholders` meeting had decided the following distribution of the AS "Latvijas Krājbanka" audited profit for the year 2006 comprising of LVL 4,105,894:

- a) to pay dividends to shareholders for "A" category preference shares in the total amount of LVL 1,162 or LVL 0.41 per one preference share. To determine 11 April 2007 to be the dividend settlement date, and 24 April 2007 – the dividend payment date;
- b) to pay dividends to shareholders for ordinary shares in the total amount of LVL 1,981,282 or LVL 0.20 per one ordinary share. To determine 11 April 2007 to be the dividend settlement date, and 24 April 2007 – the dividend payment date;
- c) to include the residual part of the AS "Latvijas Krājbanka" audited profit for the year 2006 to the retained earnings.

The accompanying notes on pages 14 to 57 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

LVL '000	Notes	Group 2007	Group 2006	Bank 2007	Bank 2006
Cash flow from operating activities					
Profit before corporate income tax		5,873	4,695	6,062	4,760
Depreciation and amortisation expense	22, 23	1,918	1,712	1,893	1,707
Increase in provisions for liabilities		-	30	-	30
Gain on revaluation of foreign currency		729	274	729	274
Gain on revaluation of investments		120	226	120	226
Other changes		-	(5)	-	-
Loss from disposal of fixed assets, net	8, 10	2	34	2	34
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		8,642	6,966	8,806	7,031
Increase in deferred income and accrued expenses		538	410	490	411
(Increase) in prepayments and accrued income		(242)	(64)	(220)	(64)
Net (increase)/ decrease in derivative instruments	18	(47)	128	(47)	128
(Increase) in other assets		(908)	(57)	(700)	(28)
Increase/ (decrease) in other liabilities		533	(286)	384	(183)
(Decrease) in financial assets at fair value through profit or loss		(4,237)	(1,719)	(4,237)	(1,865)
Increase in financial assets held to maturity		9,706	2,300	9,706	2,300
(Increase) in balances due from the central bank and credit institutions		(10,972)	(4)	(10,972)	(4)
(Increase) in loans and advances to non-banking customers	16	(106,762)	(38,672)	(107,188)	(38,812)
Increase in deposits from customers		259,985	124,815	260,025	125,120
Net increase in cash and cash equivalents from operating activities before income tax		156,236	93,817	156,047	94,034
Paid income tax		(1,081)	(901)	(1,081)	(900)
Net increase in cash and cash equivalents from operating activities		155,155	92,916	154,966	93,134
Cash inflow/ (outflow) from investing activities					
(Purchase) of fixed and intangible assets	22, 23	(8,809)	(3,111)	(8,466)	(2,964)
Proceeds from disposal of fixed and intangible assets		170	409	170	300
Investment in associate and subsidiary, net of cash acquired	20	-	-	(154)	(253)
(Decrease) in cash and cash equivalents from investing activities		(8,639)	(2,702)	(8,450)	(2,917)
Cash inflow/ (outflow) from financing activities					
Issue of shares		3,043	-	3,043	-
Issue of share premium		10,977	-	10,977	-
Issue of debt securities		3,593	-	3,593	-
Dividends paid		(1,982)	-	(1,982)	-
Proceeds from issue of subordinated debt		1,238	3,810	1,238	3,810
Increase in cash and cash equivalents from financing activities		16,869	3,810	16,869	3,810
Net increase in cash and cash equivalents		163,385	94,024	163,385	94,027
Cash and cash equivalents at the beginning of the year	33	119,908	26,158	119,908	26,155
(Loss) from revaluation of foreign currency		(729)	(274)	(729)	(274)
Cash and cash equivalents at the end of the year	33	282,564	119,908	282,564	119,908

Operational cash flows from interest and dividends:

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Interest paid	12,491	4,270	12,513	4,278
Interest received	29,299	16,631	29,272	16,631
Dividend received	-	-	8	6

The accompanying notes on pages 14 to 57 form an integral part of these financial statements.

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

AS LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
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1. INCORPORATION AND PRINCIPAL ACTIVITIES

JSC Latvijas Krājbanka (hereinafter – the Bank) was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940 it was reorganized 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 license to perform banking operations. The Bank was registered in 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 privatized. During the first phase of the privatization process in 1997, the Bank was merged with 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 privatization 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.

As of 31 December 2007, the Bank had customers' service centres in all regions of Latvia:

<u>Region</u>	<u>Customer service centres</u>	
Riga	45	(38)
Latgale		21
	(12)	
Vidzeme, except Riga	17	(13)
Kurzeme	17	(11)
Zemgale		7
	(7)	
Total	107	(81)

The comparatives for 2006 are disclosed in brackets.

The financial statements of the Bank for the year ended 31 December 2007 were approved by a resolution of the Bank's Board on 28 February 2008. The Bank's shareholders have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies consistently applied (unless otherwise stated) throughout the years ended 31 December 2007 and 2006, is set out below:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Latvian Financial and Capital Market Commission's "Regulations on the preparation of annual reports and annual consolidated accounts for banks, investment brokerage firms and investment management companies".

b) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities which are measured at fair value: derivative financial instruments, financial assets and financial liabilities at fair value through profit or loss, as well as land and buildings which are measured at revalued amount.

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 2006, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2007:

- IFRS 7 Financial Instruments: Disclosures. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies". This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Group.
- IAS 1 Presentation of Financial Statements. This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 42.

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- IFRIC 8 Scope of IFRS 2. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Group.
- IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Group.
- IFRIC 10 Interim Financial Reporting and Impairment. The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

The Bank and the Group has also early adopted IFRS 8. Adoption of this standard did not have any effect on the financial performance or the position or the disclosures of the Bank and the Group.

- The principal effect of the change to IFRS 8 Operating Segments is that this standard requires disclosure of the information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that there are no operating segments used by the management of the Group, as the management of the Group are not using disaggregated information.
- The entity-wide disclosures are presented in these financial statements in the following notes. The revenues by external customers for similar products and services are reported in Notes 3 and 5. As the major Group's clients during the reporting year were Latvian residents, no geographical analysis of revenues is disclosed. Majority of Group's non-current assets other than financial instruments are located in Latvia, so no geographical analysis of non-current assets is disclosed.

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

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank as at and for the year ended 31 December 2007 and 2006. The Bank has consolidated its subsidiaries as disclosed in Note 20. 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.

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 based on the full consolidation method.

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.

d) Income and expense recognition

Interest revenue and expenses are recognized in the income statement on an accrual basis using the effective interest rate. Interest revenue includes various fixed payments, coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted investments.

Commission and fee revenue and expense are included in the income statement over the period or at a specific time, except for commission and fee revenue and expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/ liabilities the respective commission and fee revenue and expense form an integral part of the effective interest rate.

e) Foreign currency translation

Transactions denominated in foreign currencies are recorded in lats at the actual rates of exchange published by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange prevailing at the year-end. Any gain or loss resulting from currency rate fluctuations subsequent to the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

The principal foreign exchange rates (LVL to 1 foreign currency unit) published by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows:

<u>Reporting date</u>	<u>USD</u>	<u>EUR</u>
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As of 31 December 2007	0.484000	0.702804
As of 31 December 2006	0.536000	0.702804

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f) Corporate income tax

Corporate income tax at the rate of 15% (2006: 15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred taxes are provided for temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using future tax rates applicable at the balance sheet date. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in income statement.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g) Earnings per share

Earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of shares in issue during the year.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders of the Bank and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (subordinated debt).

h) Impairment of non-financial assets

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs (fair value less costs to sell), or the estimated future economic benefits arising from the use of the asset (value in use). The largest components of the Group's assets are periodically tested for impairment and impairments are provisioned through the profit and loss account "Impairment losses".

i) Originated loans and loan impairment

The Management of the Group have considered both specific and collective (portfolio) risks in determining the allowance for credit losses (impairment). The specific allowance is determined after individually reviewing all loans for potentially uncollectible amounts and is based on the customer's financial position, value of collateral and fulfilment of loan agreement. The collective (portfolio) allowance relates to existing credit losses, as well as to the losses incurred, but not yet known to the Group. This method permits to attribute each group of loans to historical loss experience for groups of assets with similar credit characteristics and observable market data reflecting current circumstances.

When a loan or advance has been classified as non-performing, an allowance for credit losses is established for that specific loan or advance for the amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the Group's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advance collectability and collateral values. Ultimate losses may vary from the current estimates.

The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance. The above estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the income statement in the reporting period in which they become known. The Management of the Group have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available information.

When loans and advances cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

j) Finance lease (Group as a lessor)

For the purposes of these financial statements, finance lease receivables are classified as *Loans and advances to customers*.

Finance leases, which confer risk and rewards similar to those attached to owned assets, are recognized as assets on commencement of the lease term at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

k) Operating lease (Group as a lessor and lessee)

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Operating lease is a lease transaction, which is not a finance lease. The lessor bears substantially all the risks and rewards that are associated with the right of ownership.

Operating lease is the type of lease, where entering in the contract for a certain period based on the client choice, the client is paying lease every month. In the case of operating lease, the ownership of the object after the end of lease period does not transfer to lessee. Operating lease income is recognized on a straight-line basis.

Where the Group is the lessee, operating lease expense is recognized on a straight line basis.

l) Financial instruments

Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and the ability to hold to maturity.

Financial instruments at fair value through profit or loss: the Group/ the Bank at inception has classified these financial assets or liabilities as designated at fair value through profit or loss and trading investments. The sub-category financial assets designated at fair value through profit or loss, is classified based on the way the management analyses these assets that is compliant with the documented risk management approach accepted by Asset and liability management committee (ALMCo). Assets are classified as designated at fair value through profit or loss when the ALMCo makes the decision about financial assets and liabilities or class of them before transaction is initialized.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale assets are financial assets that are not classified in one of the above mentioned categories.

Financial liabilities are classified into those at fair value through profit or loss and those accounted for at amortized cost.

Recognition

The Group recognizes a financial asset or a financial liability on its balance sheet when and only when, the Group becomes a party to the contractual provisions of the instrument.

Purchase of securities is accounted for using settlement date.

Measurement

Held-to-maturity investments are initially recognized at fair value plus transaction costs and subsequently remeasured at amortised cost less impairment. Amortised cost is calculated using the effective interest method. Premiums or discounts, as well as initial transaction costs, are included in the carrying amount of the related financial instrument and amortised based on the effective interest rate of the instrument.

Revaluation of financial assets at fair value through profit or loss, trading investments and available-for-sale assets are based on quoted market price. If quoted prices are not readily available, the Bank uses alternative methods to determine the fair value, for example, using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Management's best estimates and the discount rate is a market rate at the balance sheet date for an instrument with similar terms and conditions and risk. Where pricing models are used, the information is based on market related measures at the balance sheet date. There are no assets where quoted prices are not available.

Revaluation of financial assets and financial liabilities at fair value through profit or loss and trading investments is directly recognized in the income statement.

Financial liabilities accounted for at amortized cost are initially measured at fair value less any transaction costs that are directly attributable to the issue of the respective liability. Subsequently, they are measured at amortized cost using the effective interest method. The components of compound financial instruments such as convertible bonds, that contain both liability and equity elements, are accounted for separately. The equity component, representing the conversion feature of the bond, is measured at the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. The fair value of the liability component on the date of issue is determined as the fair value of a bond with similar terms and conditions but without a conversion feature.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or

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- the Group and the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group and the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group and the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

m) Investments in privatization certificates

Investments in privatization certificates are stated at their market value determined in accordance with instructions of the Bank of Latvia.

Unrealized profits or losses arising as a result of stating privatization certificates at market value are respectively credited or charged to the statement of income as profit or loss from the revaluation of securities.

n) Derivatives

In the normal course of business, the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments. Financial assets and financial liabilities arising from recognizing derivatives at their fair value are recognized in the balance sheet as the assets or liabilities of these agreements. Foreign exchange instruments are valued according to the present value of the difference between the current forward rate at the balance sheet date for the remaining maturity of the contract, based on rates set by the Bank of Latvia, and the contractual rate. The revaluation result is disclosed as profit or loss from currency exchange trading.

o) Intangible assets

Intangible assets are recognized when it is probable that the asset will generate future economic benefits and their cost can be measured reliably. Intangible assets are amortized over the period of their useful life on a straight-line basis. Computer software is treated as an intangible asset only when it is not an integral part of the related hardware. The amortisation rates in range of 12.5% to 20% are applied to intangible assets.

p) Business combinations and goodwill

Upon acquisition, subsidiaries are accounted for under the purchase method of accounting. Any goodwill arising on acquisition is recognised in the consolidated balance sheet, any negative goodwill is immediately charged to the income statement.

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net assets of the acquired subsidiary/ associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as a component of "Intangible assets". Goodwill is not amortized and is tested for impairment on an annual basis.

q) Fixed assets

Fixed assets are recorded at historical cost or their revalued amount, less accumulated depreciation. If the recoverable amount of a fixed asset is lower than its carrying amount, the fixed asset is written down to its recoverable amount.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and preparation are not depreciated. The following depreciation rates have been applied:

<u>Type of fixed assets</u>	<u>Annual Rate</u>
Buildings	2%-6,667%
EDP equipment	25%
Equipment and fixtures	10%-33,33%
Transport vehicles	10%

Fixed assets maintenance and running repair costs are charged to the income statement as incurred.

Leasehold improvements and capital repair costs are capitalized and depreciated over the shorter of the useful life and the remaining lease contract period on a straight-line basis.

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Land and buildings are revalued periodically.

Depreciation methods, useful lives and residual values are reassessed annually.

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r) Sale and repurchase agreements

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received stated as a liability to the transferee.

Where the Group is the transferee, the assets are not recognized in the Group's balance sheet, but the purchase price paid to the transferor is included as a receivable from the transferor. Interest income or expense arising from outstanding sale and repurchase agreements is recognized in the income statement over the term of the agreement using effective interest rate.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with original maturity of three months or less.

t) Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

u) Vacation accruals

The vacation accruals are future salary expected to be paid and are estimated for the Group's personnel based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months including social security contributions, that approximates the expected cash flows to be paid.

v) Other off-balance sheet instruments

In the ordinary course of business the Group is involved with commitments to extend loans and advances, set limits for credit cards accounts, issue overdrafts and financial guarantees, as well as commercial letters of credit. Such financial instruments are recorded in the financial statements as follows:

- Commitment to extend loans and advances, credit card and overdraft facilities are recognized on drawdown;
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

w) Assets and liabilities under management

Assets and liabilities managed by the Group on behalf of its customers, trusts and other institutions are not regarded as assets or liabilities of the Group and, therefore, are not included in its balance sheet. The Group assumes no control, no risk and no benefit for assets and liabilities under management.

x) The fair value of financial assets and liabilities

The fair value of financial assets and liabilities represent the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. If the fair value of financial assets and liabilities is different from the balance sheet value, then the fair value of financial assets and liabilities is disclosed in the notes to the financial statements.

y) Adoption of new and revised IFRSs

The Group in these financial statements has not adopted the following IFRS and IFRIC interpretations, which are published, but have not yet come into force.

- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

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- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.
- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IAS 1 Presentation of Financial Statements – Revised.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced. The Group is still estimating the impact of the adoption of this revision.

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3. INTEREST REVENUE AND EXPENSE

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Interest revenue				
Loans and advances to customers	23,252	14,705	23,225	14,709
<i>Including impaired</i>	329	376	329	376
Securities	1,869	1,368	1,869	1,365
<i>Incl. Held-to-maturity investments</i>	424	529	424	529
<i>Incl. Financial assets held- for- trading</i>	-	17	-	17
<i>Incl. Financial assets designated at fair value through profit or loss</i>	1,445	822	1,445	819
Balances due from credit institutions	7,400	2,166	7,400	2,165
Total interest revenue	32,521	18,239	32,494	18,239
Interest expense:				
Deposits from the customers	(14,152)	(5,825)	(14,174)	(5,833)
Balances due to credit institutions	(1,014)	(181)	(1,014)	(181)
Debt securities issued	(165)	-	(165)	-
Contributions to deposit guarantee fund	(807)	(502)	(807)	(502)
Subordinated debt	(634)	(274)	(634)	(274)
Total interest expense	(16,772)	(6,782)	(16,794)	(6,790)
Net interest income	15,749	11,457	15,700	11,449

4. INTEREST PRODUCTIVITY OF THE BANK'S BALANCE SHEET

LVL '000	2007			2006		
	Average monthly balance	Interest	Effective interest rate	Average monthly balance	Interest	Effective interest rate
Assets						
Cash and due from the central bank	45,859	660	-	37,967	-	-
Balances due from credit institutions	133,150	6,740	5.06	41,688	2,165	5.19
Financial investments	33,830	1,869	5.52	26,770	1,365	5.10
Derivative assets	555	-	-	18	-	-
Loans and advances to customers, net	247,196	23,225	9.40	166,809	14,709	8.82
Other assets	28,564	-	-	17,824	-	-
A Total assets	489,154	32,494	6.64	291,076	18,239	6.27
Liabilities						
Deposits from the customers	411,334	14,981	3.64	248,789	6,335	2.55
Balances due to credit institutions	23,048	1,014	4.40	9,999	181	1.81
Derivative liabilities	378	-	-	241	-	-
Subordinated debt	8,072	634	7.85	4,158	274	6.59
Debt securities issued	3,231	165	-	-	-	-
Other liabilities	18,202	-	-	8,270	-	-
B Total liabilities	464,265	16,794	3.62	271,457	6,790	2.50
Shareholders' equity	24,890	-	-	19,619	-	-
C Total liabilities and shareholders' equity	489,155	16,794	3.43	291,076	6,790	2.33
Net interest income	15,700			11,449		
Investment spread % (A-C)	3.21%			3.94%		

There is no significant difference in productivity between the Bank and the Group.

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5. COMMISSION AND FEE REVENUE AND EXPENSE

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Commission and fee revenue:				
Payment cards	3,122	2,552	3,122	2,552
Money transfers	2,097	1,942	2,097	1,942
Transactions with privatization certificates	504	565	504	565
Maintenance fee	567	487	569	487
Cash services	424	462	424	462
Brokerage fee	124	106	124	106
Trust operations	217	33	217	33
Other	575	489	381	452
Total commission and fee revenue	7,630	6,636	7,438	6,599
Commission and fee expense:				
Payment cards	(1,230)	(956)	(1,230)	(956)
Settlements	(199)	(172)	(199)	(172)
Other	(449)	(579)	(438)	(577)
Total commission and fee expense	(1,878)	(1,707)	(1,867)	(1,705)
Net commission and fee income	5,752	4,929	5,571	4,894

6. PROFIT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING AND REVALUATION

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Profit from trading with foreign currency	4,549	1,686	4,549	1,686
Profit on sale of financial assets at fair value through profit or loss	87	541	87	541
<i>Incl. Financial assets designated at fair value through profit or loss</i>	87	541	87	541
Profit/ (loss) from revaluation of financial assets at fair value through profit or loss	(208)	223	(208)	227
<i>Incl. Financial assets designated at fair value through profit or loss</i>	(208)	223	(208)	227
(Loss) from revaluation of foreign currency positions	(729)	(274)	(729)	(274)
Total profit on sale of securities and foreign exchange trading and revaluation	3,699	2,176	3,699	2,180

7. OTHER OPERATING INCOME

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Penalties received	902	826	902	826
Rental income	93	63	93	63
Gain from sale of fixed assets	33	6	33	6
Other operating income	126	123	120	123
Total other operating income	1,154	1,018	1,148	1,018

A major part of penalties received are penalties for non-compliance with contract terms and conditions.

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8. PERSONNEL EXPENSE

Personnel expense include remuneration to the Supervisory Council, the Management Board and other personnel of the Bank as well as related social security contributions and costs of other benefits.

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Remuneration to the Supervisory Council	155	8	155	8
Remuneration to the Management Board	517	473	459	473
Remuneration to other personnel	7,071	5,530	6,931	5,502
Social security contributions	1,730	1,257	1,686	1,250
Total remuneration and related social security contributions	9,473	7,268	9,231	7,233

The total number of personnel employed by the Bank and the Group is specified as follows:

	Group 2007	Group 2006	Bank 2007	Bank 2006
Members of the Management Board	18	6	6	6
Other Management personnel	40	34	34	33
Staff personnel	928	885	909	883
Total number of personnel employed	986	925	949	922

The Bank has entered into employment agreements with three Board members granting the 6 month average salary in case of their dismissal.

9. OTHER OPERATING EXPENSES

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Rent of premises and land	1,785	856	1,780	853
Advertising and marketing	764	730	760	730
Non-refundable value added tax	933	597	933	597
EDP maintenance	531	475	531	475
Communications	467	451	464	445
Security	367	350	367	350
Repairs and maintenance of premises and buildings	518	329	518	329
Car maintenance	326	274	319	234
Participation fees and payments to funds	195	172	195	172
Consulting and professional fees	275	130	275	130
Audit fees	56	32	51	31
Office expense	170	134	167	133
Training and other personnel expenses	180	130	180	129
Property and real estate tax	53	137	53	137
Insurance	149	106	149	106
Loss from fixed assets disposal	87	40	87	40
Other operating expenses	1,220	443	1,097	437
Total operating expenses	8,076	5,386	7,926	5,328

In 2007 the Bank concluded an operating lease contract for the usage of real estate and land. The building at 15 Jāņa Daliņa Street is being used as an administrative office. The term of the lease contract is 20 years, ending 31 March 2027. The total expected minimum lease payment amounts to LVL 25,975 thousand. That includes payments up to 1 year of LVL 1,355 thousand, payments 1-5 years – LVL 5,421 thousand and LVL 19,199 thousand for payments over 5 years.

In 2006 and 2007 the Bank concluded operating lease contracts with SIA "Unilizings" for the time period from one to three years for the lease of 49 (forty-nine) cars. According to those contracts, the operating lease per year comprises LVL 99 thousand. The total amount of operating lease payments throughout the period comprises of LVL 472 thousand. The payments up to one year comprise of LVL 99 thousand, from one up to five years – LVL 375 thousand.

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10. IMPAIRMENT LOSSES

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

LVL '000	Impairment losses for loans	Other impairment losses	Total
Impairment losses as at 31 December 2005	2,814	181	2,995
Impairment losses	1,175	11	1,186
Reversal of impairment losses	(482)	(2)	(484)
Recovery of assets previously written-off	(183)	-	(183)
Net charge to the income statement	510	9	519
Foreign exchange movements	(12)	(1)	(13)
Net write-offs and recoveries of assets	(462)	(14)	(476)
Impairment losses as at 31 December 2006	2,850	175	3,025
Impairment losses	1,769	11	1,780
Reversal of impairment losses	(551)	(1)	(552)
Recovery of assets previously written-off	(214)	-	(214)
Net charge to the income statement	1,004	10	1,014
Foreign exchange movements	(2)	(1)	(3)
Net write-offs and recoveries of assets	(1,607)	(3)	(1,610)
Impairment losses as at 31 December 2007	2,245	181	2,426

There is no impairment for off-balance sheet items.

11. CORPORATE INCOME TAX

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Deferred tax income	(43)	(76)	(43)	(76)
Corporate income tax	962	730	955	730
Corporate income tax for the reporting year	919	654	912	654

The reconciliation of corporate income tax at the statutory rate of 15% (2006: 15%) and the actual corporate income tax expense was as follows:

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Profit before corporate income tax	5,873	4,695	6,062	4,760
Theoretical tax: 15% (2006: 15%)	881	704	909	714
Non-deductible expenses, net	207	59	172	49
Tax allowance on charity	(169)	(109)	(169)	(109)
Corporate income tax for the reporting year	919	654	912	654

Reconciliation of prior year deferred tax balance with that of current period is as follows:

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
Deferred tax liability at the beginning of the reporting period	755	840	755	840
Deferred tax charged through the income statement	(43)	(76)	(43)	(76)
Deferred tax charged through revaluation reserve	136	(9)	136	(9)
Deferred tax liability at the end of the reporting period	848	755	848	755

The deferred tax assets and liabilities relate to the following items:

LVL '000	Group 2007	Group 2006	Bank 2007	Bank 2006
<i>Deferred tax liability:</i>				
-temporary difference on fixed asset carrying value for financial purposes and tax written down value	1,192	1,002	1,192	1,002
<i>Deferred tax asset:</i>				
- loan commissions	(225)	(165)	(225)	(165)
- other provisions	(119)	(82)	(119)	(82)
Deferred tax liability	848	755	848	755

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12. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation attributable to ordinary shareholders of the Bank and the average number of shares in issue during the year.

	Group 2007	Group 2006
Profit after taxation (LVL'000)	4,954	4,041
Average number of shares in issue (thousand)	9,745	9,106
Earnings per share	0.508	0.444

Preference shares have not been added.

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 year 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 year 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 1.15 LVL of subordinated debt for one share (see also Note 29).

	Group 2007	Group 2006
Profit after taxation (LVL'000)	4,954	4,041
Interest for subordinated debt, net of income tax (LVL'000)	230	233
	5,184	4,274
Average number of shares in issue (thousand)	9,745	9,106
Potential shares as a result of conversion of subordinated debt (thousand)	3,361	3,361
	13,106	12,467
Diluted earnings per share (LVL)	0.396	0.343

13. CASH AND DEPOSITS ON DEMAND WITH THE CENTRAL BANK

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Cash	17,440	16,042	17,440	16,042
Deposits with the Bank of Latvia	30,711	53,617	30,711	53,617
Total cash and deposits on demand with the central bank	48,151	69,659	48,151	69,659

As at 31 December 2007, the Bank had not restricted use of cash in escrow account (2006: LVL 1,860 thousand).

According to the requirement of the Bank of Latvia, credit institutions should comply with the requirement on obligatory reserves.

As at 31 December 2007, the obligatory reserves were LVL 32,097 thousand (2006: LVL 25,095 thousand). In the reporting year, the Bank has complied with the requirements on obligatory reserves.

14. BALANCES DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Correspondent accounts	219,003	16,061	219,003	16,061
Term deposits	56,005	83,533	56,005	83,533
Total balances due from credit institutions	275,008	99,594	275,008	99,594

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Balances due from credit institutions by geographic region:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Placements with Latvian commercial banks	54,050	51,278	54,050	51,278
Placements with OECD banks	212,154	39,732	212,154	39,732
Placements with other banks	8,804	8,584	8,804	8,584
Total balances due from credit institutions	275,008	99,594	275,008	99,594

15. LOANS AND ADVANCES TO CUSTOMERS

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Loans	257,877	176,453	267,379	176,593
Utilised credit lines	28,574	13,834	28,574	13,834
Debit balances on settlement cards	4,026	2,814	4,026	2,814
Factoring	311	279	311	279
Overdrafts	191	244	191	244
Finance lease	8,947	145	11	145
Total gross loans and advances to customers	299,926	193,769	300,492	193,909
Impairment losses (Note 10)	(2,245)	(2,850)	(2,245)	(2,850)
Total net loans and advances to customers	297,681	190,919	298,247	191,059

Loans and advances to customers net of impairment by customer type:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Private individuals	156,140	113,496	154,494	113,496
Impairment losses	(1,227)	(1,556)	(1,227)	(1,556)
Privately held companies	137,719	75,218	140,039	75,358
Impairment losses	(1,018)	(1,293)	(1,018)	(1,293)
Personnel employed by the Bank	5,291	4,128	5,206	4,128
Impairment losses	-	(1)	-	(1)
Municipal authorities	190	621	173	621
Impairment losses	-	-	-	-
Municipality owned enterprises	480	188	480	188
Impairment losses	-	-	-	-
Non-governmental and religious institutions	106	107	100	107
Impairment losses	-	-	-	-
State owned enterprises	-	11	-	11
Impairment losses	-	-	-	-
Total loans and advances to customers	297,681	190,919	298,247	191,059

Loans and advances to customers before impairment losses by industry:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Private individuals	159,700	117,624	159,700	117,624
Real estate development	38,477	18,446	38,477	18,446
Retail trade and wholesale distribution	14,342	11,107	14,342	11,107
Manufacturing	12,429	8,336	12,429	8,336
Hotels and restaurants	11,208	6,680	11,208	6,680
Agriculture and forestry	7,632	6,625	7,632	6,625
Financial intermediaries	13,933	6,130	13,933	6,130
Construction	6,071	4,687	6,071	4,687
Transport, warehousing and communications	19,003	1,596	19,003	1,596
State administration and healthcare	1,766	1,585	1,766	1,585
Electricity, gas and water utilities	1,459	1,146	1,459	1,146
Other service industries	13,906	9,807	14,472	9,947
Total loans and advances to customers	299,926	193,769	300,492	193,909

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

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Finance lease

Present value of the minimum lease payments distribution by maturity:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Up to 1 year	1,579	118	3	118
1 to 5 years	7,368	27	8	27
Total leasing portfolio (A)	8,947	145	11	145

Future interest income distribution by maturity:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Up to 1 year	565	15	-	15
1 to 5 years	1,204	1	-	1
Total future interest income (B)	1,769	16	-	16

Minimum lease payments distribution by maturity:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Up to 1 year	2,144	133	3	133
1 to 5 years	8,572	28	8	28
Total gross investments (A+B)	10,716	161	11	161

The lease maturity does not exceed 5 years.

As at 31 December 2007 and 2006, the accrued interest on impaired loans was LVL 568 thousand and LVL 361 thousand, respectively.

The Bank does not have any significant concentrations of credit risk.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Financial assets at fair value through profit or loss				
Government bonds	7,944	13,193	7,944	13,193
Corporate bonds	3,008	2,318	3,008	2,318
Credit and other financial institutions bonds	9,878	1,685	9,878	1,685
Municipal bonds	257	276	257	276
Shares	509	9	509	9
Privatization certificates	98	54	98	54
Total financial assets designated at fair value through profit or loss	21,694	17,535	21,694	17,535
Derivatives (Note 17)	291	42	291	42
Total financial assets at fair value through profit or loss	21,985	17,577	21,985	17,577

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17. DERIVATIVES (GROUP AND BANK)

LVL '000	Notional amount		Fair value			
			Assets		Liabilities	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Currency derivatives	119,501	53,479	291	42	456	254
Total derivatives	119,501	53,479	291	42	456	254

18. HELD-TO-MATURITY INVESTMENTS

LVL '000	Group		Bank	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Government bonds	1,613	13,293	1,613	13,293
Credit and other financial institutions bonds	602	620	602	620
Corporate bonds	2,532	582	2,532	582
Total held-to-maturity investments	4,747	14,495	4,747	14,495

19. INVESTMENT IN SUBSIDIARIES

LVL '000	Business profile	Historical cost		Share (%)	
		31.12.2007	31.12.2006	31.12.2007	31.12.2006
AS „Ieguldījumu sabiedrība „Astra Krājfondi”	Investment fund management	361	361	100	100
Ieguldījumu pārvaldes sabiedrība „LKB Assets management”	Investment fund management	120	120	100	100
SIA “LKB līzings”	Leasing company	120	-	100	-
AS “Pirmais atklātais pensiju fonds”	Investment fund management	32	-	100	-
SIA „Krājinvestīcijas”	Real estate management	5	5	100	100
SIA “Baltic Property project	Real estate management	2	-	100	-
Total investment in subsidiaries		640	486	-	-

In 2007 the Bank established its own company SIA “LKB līzings” (“LKB Līzings” Ltd) with share capital in the amount of LVL 120 thousand. SIA “LKB līzings” was registered in the Commercial Register of the Republic of Latvia on 3 January 2007.

In 2006 the Bank established its own asset management company „LKB Asset management” with share capital in the amount of LVL 120 thousand. The asset management company „LKB Asset management” was registered in the Commercial Register of the Republic of Latvia on 11 April 2006.

The shares of the subsidiaries are not listed.

20. BUSINESS ACQUISITION

On 25 June, 2007, the Bank bought 100% of AS „Pirmais atklātais pensiju fonds” (JSC “First Open Pension Funs”), acquiring 292,000 shares for the total amount of 32 thousand lats, thus becoming the only holder of the company’s shares. On the acquisition date, the fair value of net acquired assets was equal to the purchase consideration.

Fair value of AS “Ieguldījumu sabiedrība „Pirmais atklātais pensiju fonds”” assets, liabilities and off-balance sheet liabilities at the acquisition date were as follows:

	<i>Fair value at the acquisition date</i>	<i>Carrying value at the acquisition date</i>
Balances due from credit institutions	30	30
Other assets	3	5
Total	33	35
Liabilities	1	1
Bank’s share of net assets measured at fair value	32	-
Paid	32	-

AS „Pirmais atklātais pensiju fonds” turnover and net profit for the time period from 1 July 2007 to 31 December 2007 comprised LVL (9) thousand and LVL (8) thousand respectively. Early in the year 2007 the fair value comprised 27 thousand LVL and by the end of 2007 – LVL 21 thousand. The transaction would cause loss in the amount of LVL 5 thousand in the early 2007, and in the amount of LVL 11 thousand by the end of 2007.

In 2006 the Bank bought an additional 50% of AS „Ieguldījumu sabiedrības „Astra Krājfondi””, by acquiring 120,000 shares for the amount of 241 thousand lats, thus becoming the only owner of the company’s shares.

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21. INTANGIBLE ASSETS

The Group

LVL '000	Licences, software, etc.	Other intangible assets	Advance payments	Intangible assets, total
Historical cost				
As at 31 December 2005	3,419	-	6	3,425
Additions	125	240	124	489
Transfer	18	-	(18)	-
Disposals	(329)	-	-	(329)
As at 31 December 2006	3,233	240	112	3,585
Additions	571	-	61	632
Transfer to other assets	-	-	(68)	(68)
Disposals	(120)	-	-	(120)
As at 31 December 2007	3,684	240	105	4,029
Amortization				
As at 31 December 2005	2,595	-	-	2,595
Charge	285	-	-	285
Disposals	(321)	-	-	(321)
As at 31 December 2006	2,559	-	-	2,559
Charge	262	-	-	262
Disposals	(112)	-	-	(112)
As at 31 December 2007	2,709	-	-	2,709
Impairment losses				
As at 31 December 2005	-	-	-	-
Charge	-	120	-	120
As at 31 December 2006	-	120	-	120
As at 31 December 2007	-	120	-	120
Net book value				
As at 31 December 2005	824	-	6	830
As at 31 December 2006	674	120	112	906
As at 31 December 2007	975	120	105	1,200

The Bank

LVL '000	Licences, software, etc.	Advance payments	Intangible assets, total
Historical cost			
As at 31 December 2005	3,415	6	3,421
Additions	125	124	249
Transfer	18	(18)	-
Disposals	(329)	-	(329)
As at 31 December 2006	3,229	112	3,341
Additions	562	57	619
Transfer to other assets	-	(68)	(68)
Disposals	(120)	-	(120)
As at 31 December 2007	3,671	101	3,772
Amortization			
As at 31 December 2005	2,593	-	2,593
Charge	283	-	283
Disposals	(321)	-	(321)
As at 31 December 2006	2,555	-	2,555
Charge	262	-	262
Disposals	(112)	-	(112)
As at 31 December 2007	2,705	-	2,705
Net book value			
As at 31 December 2005	822	6	828
As at 31 December 2006	674	112	786
As at 31 December 2007	966	101	1,067

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22. FIXED ASSETS

The Group

LVL '000	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total fixed assets
Historical cost/ Revalued						
As at 31 December 2005	5,233	1,256	434	11,314	130	18,367
Additions*	-	1,135	26	873	708	2,742
Transfer	-	1	159	217	(378)	(1)
Disposals	(1)	(127)	(9)	(754)	(63)	(954)
As at 31 December 2006	5,232	2,265	610	11,650	397	20,154
Additions	3,523	1,531	378	2,755	56	8,243
Revaluation	2,593	-	-	-	-	2,593
Disposals	(327)	(51)	(363)	(912)	-	(1,653)
As at 31 December 2007	11,021	3,745	625	13,493	453	29,337
Depreciation						
As at 31 December 2005	-	679	240	8,047	-	8,966
Charge	140	128	108	1,051	-	1,427
Disposals	-	(107)	(2)	(519)	-	(628)
As at 31 December 2006	140	700	346	8,579	-	9,765
Charge	179	246	108	1,123	-	1,656
Revaluation	(319)	-	-	-	-	(319)
Disposals	-	(50)	(313)	(863)	-	(1,226)
As at 31 December 2007	-	896	141	8,839	-	9,876
Net book value						
As at 31 December 2005	5,233	577	194	3,267	130	9,401
As at 31 December 2006	5,092	1,565	264	3,071	397	10,389
As at 31 December 2007	11,021	2,849	484	4,654	453	19,461

*The cost value of the revalued fixed assets is approximately LVL 5.5 mln.

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The Bank

LVL '000	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total fixed assets
Historical cost/ Revalued						
As at 31 December 2005	5,233	1,254	434	11,307	130	18,358
Addition	-	1,135	-	872	708	2,715
Revaluation						
Transfer	-	1	159	217	(378)	(1)
Disposal	(1)	(125)	(9)	(753)	(63)	(951)
As at 31 December 2006	5,232	2,265	584	11,643	397	20,121
Addition	3,523	1,531	67	2,738	56	7,915
Revaluation	2,593	-	-	-	-	2,593
Disposal	(327)	(51)	(363)	(912)	-	(1,653)
As at 31 December 2007	11,021	3,745	288	13,469	453	28,976
Depreciation						
As at 31 December 2005	-	678	240	8,046	-	8,964
Charge	140	127	108	1,049	-	1,424
Disposals	-	(105)	(2)	(519)	-	(626)
As at 31 December 2006	140	700	346	8,576	-	9,762
Charge	179	246	88	1,118	-	1,631
Revaluation	(319)	-	-	-	-	(319)
Disposals	-	(50)	(313)	(862)	-	(1,225)
As at 31 December 2007	-	896	121	8,832	-	9,849
Net book value						
As at 31 December 2005	5,233	576	194	3,261	130	9,394
As at 31 December 2006	5,092	1,565	238	3,067	397	10,359
As at 31 December 2007	11,021	2,849	167	4,637	453	19,127

Revaluation reserve statement:

LVL '000	Group
Revaluation reserve as at 31.12.2005	2,830
Change in deferred tax related to revaluation reserve	9
Revaluation reserve 31.12.2006	2,839
Increase of revaluation reserve after revaluation of the land and building in 2007	2,913
Decrease of the previously revaluated building value	(264)
<i>(A) Change in revaluation reserve due to changes in fixed assets value</i>	<i>2,649</i>
Change in temporary deferred tax differences due to asset revaluation difference	(146)
Change in deferred tax related to revaluation reserve	10
Revaluation reserve as at 31.12.2007	5,352
<i>(B) Decrease of revaluation reserve, which is reflected in the income statement</i>	<i>(56)</i>
Total revaluation reserve changes for fixed assets (A+B)	2,593

The land and buildings are measured, applying the revaluation method, unified for the whole category.

On 28 September 2007, the Bank signed a contract with two independent consultants for the revaluation of the Bank's real estate. Only services of certified valuers were used and revaluation was made in accordance with Latvian Property Valuation Standards and International Valuation Standards. Revaluation was made within 40 (forty) days from the day of the Contract conclusion. The fair value was determined by reference to market-based evidence, both using the comparable market transactions and the income methods.

As a result of valuations in 2005 and 2007, the revalued value of fixed assets is approximately LVL 5,472 thousand, including revaluation reserve increase to the amount of LVL 5,592 thousand. If both revaluations were not performed, the carrying amount of those fixed assets would comprise of LVL 2,353 thousand.

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23. OTHER ASSETS

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Unrealised gains from SPOT transactions	316	67	316	67
Value added tax prepaid	152	147	152	147
Prepayment on corporate income tax	887	528	887	528
Settlement with Western Union	84	134	84	134
Other	1,205	488	963	455
<i>Including for the realization of collateral</i>	<i>341</i>	<i>-</i>	<i>341</i>	<i>-</i>
Gross total other assets	2,644	1,364	2,402	1,331
Impairment losses (see Note 10)	(182)	(175)	(182)	(175)
Total other assets	2,462	1,189	2,220	1,156

In June 2007, the Bank obtained two real estate properties as a result of realising the loan collateral. The obtained collaterals will be realised in the market.

24. BALANCES DUE TO THE CENTRAL BANK AND CREDIT INSTITUTIONS

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Correspondent accounts and demand deposits	24,659	7,150	24,659	7,150
Term deposits	2,009	39,240	2,009	39,240
Total balances due to credit institutions	26,668	46,390	26,668	46,390

Balances due to credit institutions by geographic region:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Placements from Latvian commercial banks	22,194	39,370	22,194	39,370
Placements from other OECD banks	5	-	5	-
Placements from other non-OECD banks	4,469	7,020	4,469	7,020
Total balances due from credit institutions	26,668	46,390	26,668	46,390

In 31 December 2007, the Bank attracted additional funds from two credit institutions for the provision of short-term funding. Additional pledge as the loan collateral was not provided.

25. DEPOSITS FROM THE CUSTOMERS

Deposits by type of depositors:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Private individuals	264,918	229,939	264,918	229,939
State owned enterprises	54,472	50,872	54,472	50,872
Privately held companies	257,507	39,960	257,949	40,362
Non-governmental and religious institutions	2,450	3,139	2,450	3,139
Municipal authorities	6,782	2,234	6,782	2,234
Total deposits from the customers	586,129	326,144	586,571	326,546

Deposits from the customers by geographic region:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Residents	360,553	307,205	360,994	307,607
Non-residents	225,576	18,939	225,577	18,939
Total deposits from the customers	586,129	326,144	586,571	326,546

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26. ISSUED DEBT INSTRUMENTS

The offer of the AS "Latvijas Krājbanka" mortgage bonds was closed successfully on 26 January 2007. The total amount of the issue of the mortgage bonds was LVL 3,514,020 (EUR 5,000,000), the maturity period is 3 years, the interest rate is a 6-month EUR LIBOR rate + 1.00% and interest is paid twice a year. Accumulated mortgage interest due for payment by the end of 2007 – LVL 79 thousand. The bonds were acquired by qualified investors, as well as those who acquired bonds for at least EUR 50 thousand.

After registration of the Prospectus at the Finance and Capital Market Commission the MBs were listed on the Riga Stock Exchange Baltic Bond List.

27. DEFERRED INCOME AND ACCRUED EXPENSES

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Accrued remuneration costs and social security contributions	323	436	323	436
Vacation accruals	365	205	365	205
Deferred income	78	47	78	47
Other accrued expense	1,049	589	1,001	589
Total deferred income and accrued expense	1,815	1,277	1,767	1,277

28. OTHER LIABILITIES

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Account payable related to purchase of Astra Krājfondi	95	107	95	107
Unrealized losses from SPOT transactions	307	75	307	75
Other liabilities	547	234	380	216
Total other liabilities	949	416	782	398

29. SUBORDINATED DEBT

LVL '000	Bank/ Group 31.12.2007	Bank/ Group 31.12.2006
„Convers Group Management Company“	3,866	3,865
„Akademgrupp“	5,047	3,810
Total other liabilities	8,913	7,675

On 8 November 2005 the Bank signed a subordinated loan contract with „Convers Group Management Company“ for the amount of EUR 5.5 million with an interest rate of 7 % per year and the repayment term seven years. The lender has the right to request conversion of the subordinate capital into ordinary shares in accordance with the procedure specified in the contract and the applicable regulatory acts. If the subordinate capital is converted into ordinary shares, the purchase price of the ordinary shares under the contract is LVL 1.15 per one share.

On 27 December 2006, the Bank signed a subordinated loan contract with the closed joint-stock company „Akademgrupp“ for the amount of USD 7.1 million with an interest rate of 8.6 % per year and the repayment term of seven years.

On 23 August 2007, the Bank signed a subordinated loan contract with the closed joint-stock company „Akademgrupp“ for the amount of USD 3.3 million with an interest rate of 9.3 % per year and the repayment term of six years.

According to the provisions under the above-mentioned contracts, the lender has the right to demand early repayment of the loan only upon liquidation of the Bank, and the lender's claim will be settled following settlement of the claims of all other creditors but before settlement of the claims by the Bank shareholders.

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30. SHAREHOLDERS' EQUITY AND RESERVES

On 31 December 2007, the Bank's registered and paid-in capital comprised LVL 12,149 thousand lats (in 2006: LVL 9,106 thousand). The stock capital consists of 12,149,246 shares, including 12,146,412 ordinary bearer shares and 2,834 "A" category preference bearer shares. Nominal value of one share is 1 (one) lat.

In accordance with the resolution of the extraordinary meeting of the shareholders held on 29 October 2006, the Bank has issued 800 thousand ordinary bearer shares and 850 thousand "A" category preference bearer shares. The Bank's shareholders and investors subscribed for all 800 thousand ordinary shares and 2,834 "A" category preference shares and paid in full the sales price set as LVL 3.50 per ordinary share and LVL 7.00 per preference share. Thus after closing of the public offer the Bank's paid-in capital comprised LVL 9,909 thousand. The share capital increase was registered in the Commercial Register on 26 March 2007.

In accordance with the resolution of the extraordinary meeting of the shareholders held on 15 October 2007, the Bank has issued 2,240 thousand ordinary bearer shares. The Bank's shareholders and investors subscribed for all 2,240 thousand ordinary shares and paid in full the sales price set as LVL 5.00 per share. Thus after closing of the public offer the Bank's paid-in capital comprised LVL 12,149 thousand. The share capital increase was registered in the Commercial Register on 18 December 2007.

All 12,149,246 shares of AS "Latvijas Krājbanka" are listed on the Baltic Second List of the AS "Rīgas Fondu Birža". There are no limitations for transfer of the Bank's shares.

The Bank's principal shareholders as at 31 December 2007 and 2006 were as follows:

LVL '000	31.12.2007		31.12.2006	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
AS banka „Snoras”	9,223	75.92	6,829	75.00
AS „West Investment”	868	7.15	868	9.53
„Geminy Investment Fund LTD”	-*	-	729	8.01
“Ratto Holdings Limited”	1,213	9.98	-	-
Other	845	6.95	680	7.46
Total	12,149	100.00	9,106	100.00

* The total number of the shares held by the shareholder is smaller than 5% of the total number of the Bank's voting shares.

By the end of the reporting year the Bank's Board and Council members did not own the Bank's shares.

During the reporting period the Bank did not issue any employee shares. There are no shareholders with the special control rights. The Bank has no information about any agreements that may cause restrictions to the shareholders in transferring their shares or voting right to other persons.

The decisions about changes in the Bank's Articles of Association are adopted at the shareholders' meeting by a ¾ majority vote of the shareholders with voting rights represented at the meeting.

The Bank has not concluded any contracts, which would come into force, would be terminated or altered in the case of change of the control type.

The Bank's shareholder's voting rights can be restricted in the cases stated in the regulatory acts of the Republic of Latvia. The Bank's Articles of Association do not envisage the shareholders' right to the profit share, which is not related to the part of shares proportionally owned by them.

Bank reserves:

- The reserve was based on legislation that existed in 1993 – 2001 and mainly refers to privatization and the treatment of capital increase and distribution of profit. The last movement relates to the share capital increase on 21 November 2000. As of the 31 December 2007 the Bank's reserve amounted LVL 626 thousand (2006: LVL 626 thousand).
- The revaluation reserve is a reserve from revaluation of fixed assets. Based on the provisions of IAS 16 revaluations shall be made with the sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. As of 31 December 2007 the Bank has performed revaluation of all its property under "Land and Building". As a result, the revaluation reserve was increased by LVL 2,648 thousand. Revaluation was performed by certified, independent valuers. For recognition purposes the average value between two unrelated valuers' statements was used.

Share premium relates to the share capital increase in 2001. The excess of share capital sales value over its nominal value was LVL 1,323 thousand.

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The share capital increase in the first half of 2007 resulted in the issue of 800,000 ordinary and 2,834 preference shares with nominal value of 1 LVL for each type of shares. Ordinary share premium is LVL 2.50 per share totalling LVL 2,000 thousand for the issue.

The preference share premium is 6.00 LVL per share totalling LVL 17 thousand for the issue. The difference between the nominal value of the shares and the sales price was LVL 2,017 thousand.

During the second half of 2007 the Bank completed the issue of additional 2,240,000 ordinary shares. The share premium is 4.00 LVL per share. The difference between the nominal value of the shares and the sales price was LVL 8,960 thousand.

31. ASSETS AND LIABILITIES UNDER MANAGEMENT

As of 31 December 2007 total assets under management amounted to LVL 90,188 thousand (2006: LVL 14,315 thousand) recognized off-balance sheet. Based on the fund owner's specific requests, the Bank issues loans to non-banking customers classified as funds under trust management. Based on the trust management agreements with customers, the fund owners bear all the risks associated with these loans, and the Bank acts only as an intermediary for loan issuance.

32. ASSETS HELD IN CUSTODY

Assets held in custody reached total value of LVL 27,435 thousand (2006: LVL 66,108 thousand) as of 31 December 2007. This includes investments in non-resident and resident financial instruments in the amount of LVL 4,974 thousand and LVL 22,461 thousand (2006: LVL 1,694 thousand and LVL 64,414 thousand), respectively.

33. CASH AND CASH EQUIVALENTS

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Cash and deposits with the Bank of Latvia	48,151	69,659	48,151	69,659
Balances due from credit institutions	261,081	96,639	261,081	96,639
Balances due to credit institutions	(26,668)	(46,390)	(26,668)	(46,390)
Total cash and cash equivalents	282,564	119,908	282,564	119,908

34. FINANCIAL INSTRUMENTS AT FAIR VALUE

The table represents a breakdown of differences between carrying value and fair value of the Bank's financial instruments by asset groups. The table does not include fair value revaluation of non-financial items.

As of 31 December 2007	Carrying value	Fair value	Difference
LVL '000			
Financial assets			
Cash and demand deposits with central banks	48,151	48,151	-
Due from credit institutions	275,008	275,008	-
Loans and advances to customers	298,247	297,912	(335)
Financial assets at fair value through profit or loss	21,985	21,985	-
Held-to-maturity investments	4,747	4,734	(13)
Financial liabilities			
Due to the other credit institutions	26,668	26,668	-
Deposits from the customers	586,571	586,336	235
Derivative financial instruments	456	456	-
Issued debt securities	3,593	3,593	-
Subordinated debt	8,913	8,199	714
Net position of accounting and fair value			601

As at 31 December 2006, The Bank/ Group estimated that fair value of its assets and liabilities, except fair values of held-to-maturity investment, did not diverge significantly from their carrying amount.

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Fair value of financial assets/ liabilities approximate carrying value

Fair value of financial assets/ liabilities with a term less than 1 year approximate carrying value. Such assumption is attributed to demand deposits, saving accounts and financial instruments with variable interest rate.

Fixed rate financial instruments

The fair value of the fixed rate instruments with the remaining maturity term of more than a year is determined comparing the yield with the market rates and discounting the future cash flows. Held-to-maturity investments are valued using the publicly quoted prices.

The table represents the Bank's financial assets and financial liabilities according to different methods of assessment.

As of 31 December 2007				
LVL '000	Quotation value	Valuation techniques – market observable inputs	Valuation techniques – nonmarket observable inputs	Total
Financial assets				
Derivative financial instruments	-	291	-	291
Financial assets designated as at fair value through profit loss	21,685	-	9	21,694
Total financial assets	21,685	291	9	21,985
Financial liabilities				
Derivative financial instruments	-	456	-	456
Total financial liabilities	-	456	-	456
As of 31 December 2006				
LVL '000	Quotation value	Valuation techniques – market observable inputs	Valuation techniques – nonmarket observable inputs	Total
Financial assets				
Derivative financial instruments	-	42	-	42
Financial assets designated as at fair value through profit and loss	17,526	-	9	17,535
Total financial assets	17,526	42	9	17,577
Financial liabilities				
Derivative financial instruments	-	254	-	254
Total financial liabilities	-	254	-	254

Net result of non-quoted financial instruments that are represented at fair value through profit loss is 0 LVL (0 LVL in 2006).

35. CONCENTRATION OF ASSETS AND OFF-BALANCE SHEET ITEMS BY GEOGRAPHIC REGION

LVL '000	Group 31.12.2007		Group 31.12.2006		Bank 31.12.2007		Bank 31.12.2006	
	Assets	Equity and liabilities	Assets	Equity and liabilities	Assets	Equity and liabilities	Assets	Equity and liabilities
Latvia	419,637	421,454	343,210	364,142	420,112	421,929	343,653	364,585
OECD countries	220,866	8,009	43,960	7,391	220,866	8,009	43,960	7,391
Other	30,840	241,880	17,964	33,601	30,840	241,880	17,964	33,601
Total	671,343	671,343	405,134	405,134	671,818	671,818	405,577	405,577

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36. CAPITAL ADEQUACY

Capital adequacy reflects capital resources necessary to cover credit and market risks associated with the Bank's assets and off-balance sheet exposures.

As of 31 December 2007 the Bank's capital adequacy ratio calculated in accordance with the Basel Committee guidelines was 12.3% (2006: 12.1%), exceeding the minimum ratio of 8% recommended by the Basel Committee in the year 1988. At the same time, as of the end of the year 2007 the capital adequacy ratio calculated in accordance with the methodology approved by the Latvian Financial and Capital Market Commission (FCMC) amounted to 12.1% (2006: 11.7%), exceeding the minimum ratio of 8% imposed on the Latvian banks by the Law on Credit Institutions.

The FCMC requires credit institutions to calculate market risk capital requirements for the trading book positions. The Bank's management believes that the Bank's trading activities are insignificant, therefore the calculation of market risk capital requirements will not have a material impact on the Bank's capital adequacy ratio. As of 31 December 2007 the market risk capital requirements are calculated only for foreign exchange risks.

The FCMC capital adequacy regulations have been developed in accordance with the European Union directives and are in conformance with the guidelines developed by the Basel Committee.

The Group's capital adequacy ratio calculated in accordance with the FCMC methodology as of 31 December 2007 was 12.0% (31 December 2006: 11.9%).

LVL '000	Group 31.12.2007	Bank 31.12.2007
Tier 1		
Paid-in share capital	12,149	12,149
Share premium	12,300	12,300
Reserve capital	626	626
Audited retained earnings (not subject to dividend distribution)	5,629	5,688
Audited profit for the year (not subject to dividend distribution)	4,954	5,150
Less		
Intangible assets	(1,200)	(1,067)
Total Tier 1	34,458	34,846
Tier 2		
Subordinated debt	8,126	8,126
Revaluation reserve	3,746	3,746
Total Tier 2	11,872	11,872
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission (A)	46,330	46,718
<i>Add Tier 1 components</i>		
Intangible assets	1,200	1,067
Tier1 in accordance with the guidelines of the Basel Agreement	35,658	35,913
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Basel Agreement	47,530	47,785

Shareholders meeting is empowered to decide upon the distribution of the profit, including the pay-out of the dividends.

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Risk weighted assets and off-balance sheet items:

LVL '000	Balance/ credit equivalent for memorandum items		Risk Weighting	Risk Weighted Assets	
	Group 31.12.2007	Bank 31.12.2007		Group 31.12.2007	Bank 31.12.2007
Assets					
0% weighted risk assets	59,309	59,309	0%	-	-
20% weighted risk assets	273,198	273,198	20%	54,640	54,640
50% weighted risk assets	39,900	39,878	50%	19,950	19,939
100% weighted risk assets	297,736	298,365	100%	297,736	298,365
Total assets	670,143	670,750		372,326	372,944
Memorandum items					
0% risk weighted	149	149	0%	-	-
20% risk weighted	12,183	12,183	20%	2,437	2,437
100% risk weighted	11,808	11,930	100%	11,808	11,930
Total risk weighted assets and memorandum items (B)	694,283	695,012		386,571	387,311
Capital adequacy ratio				12.0%	12.1%

37. CURRENCY ANALYSIS

As of 31 December 2007	LVL	USD	EUR	Other currencies	Total
LVL '000					
Assets					
Cash and deposits with the central bank	44,156	943	2,383	669	48,151
Balances due from credit institutions and central banks	53,849	210,013	1,690	9,456	275,008
Loans and advances to customers	78,897	15,175	204,175	-	298,247
Securities and investments	15,302	6,070	5,596	404	27,372
Fixed and intangible assets	20,194	-	-	-	20,194
Prepayments and other assets	2,479	153	182	32	2,846
Total assets	214,877	232,354	214,026	10,561	671,818
Liabilities and shareholders' equity					
Balances due to the central bank and Credit institutions	22,106	670	3,892	-	26,668
Deposits from the customers	254,034	232,972	97,201	2,364	586,571
Debt securities issued	-	-	3,593	-	3,593
Accounts payable and other liabilities	4,598	37	125	48	4,808
Subordinated debt	-	5,047	3,866	-	8,913
Shareholders' equity	41,265	-	-	-	41,265
Total liabilities and shareholders' equity	322,003	238,726	108,677	2,412	671,818
Net long/ (short) position on balance sheet	(107,126)	(6,372)	105,349	8,149	-
Net long/ (short) position on balance sheet as of 31 December 2006	(59,777)	(13,993)	65,031	8,739	-
Off-balance sheet items from foreign exchange*					
Unsettled spot foreign exchange transactions	(697)	(840)	1,526	20	9
Forward foreign exchange transaction	105,262	7,473	(105,172)	(7,250)	313
Net long/(short) position on foreign exchange	104,565	6,633	(103,646)	(7,230)	322
Net long/(short) position	(2,561)	261	1,703	919	322
Net long/(short) position as of 31 December 2006	(23,703)	(3)	23,328	164	(214)
Financial commitments and contingencies					
Contingent liabilities	26,577	247	1,443	-	28,267

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Financial commitments	15,297	1,567	8,580	-	25,444
Total financial commitments and contingencies	41,874	1,814	10,023	-	53,711

* These items are considered off-balance sheet items for the purpose of this disclosure as required by local legislation.

LVL is used as the functional currency by all Group entities, there is no significant difference between currency profiles of the Bank and the Group.

The regulations of the Republic of Latvia state that an open position in each foreign currency shall not exceed 10% of the equity, but total open position shall not exceed 20% of the equity.

Consolidated companies use LVL as the functional currency, therefore the Group's currency position does not differ from the Bank's currency position.

As at 31 December 2007 and 2006, the Bank complied with the requirements for the net open currency position.

In May 2007 the amendments to the Credit Institution Law came into force, restricting also EUR position to 10% of the equity.

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38. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE– The Group

As of 31 December 2007:								
LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and deposits with the central bank	30,711	-	-	-	-	-	17,440	48,151
Balances due from credit institutions and central banks	259,460	9,977	1,924	20	-	-	3,627	275,008
Loans and advances to customers	12,535	7,177	13,764	33,484	227,833	2,555	333	297,681
Securities and investments	23,037	2,745	311	31	-	-	608	26,732
Fixed and intangible assets	-	-	-	-	-	-	20,661	20,661
Prepayments and other assets	1,305	-	-	-	-	-	1,805	3,110
Total assets	327,048	19,899	15,999	33,535	227,833	2,555	44,474	671,343
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	424,533	29,324	65,784	48,636	17,554	298	-	586,129
Debt securities issued	-	79	-	-	3,514	-	-	3,593
Derivative liabilities	398	58	-	-	-	-	-	456
Deferred tax liability	-	-	-	-	-	-	848	848
Accounts payable and other liabilities	3,726	-	-	-	-	-	-	3,726
Subordinated debt	-	14	-	-	3,865	5,034	-	8,913
Shareholders' equity	-	-	-	-	-	-	41,010	41,010
Total liabilities and shareholders' equity	455,325	29,475	65,784	48,636	24,933	5,332	41,858	671,343
Net liquidity gap	(128,277)	(9,576)	(49,785)	(15,101)	202,900	(2,777)	2,616	-
Financial commitments and contingencies								
Contingent liabilities	1,820	-	-	1,449	5,799	19,199	-	28,267
Financial commitments	25,200	-	-	-	-	-	-	25,200
Total financial commitments and contingencies	27,020	-	-	1,449	5,799	19,199	-	53,467
As of 31 December 2006:								
LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and deposits with the central bank	69,659	-	-	-	-	-	-	69,659
Balances due from credit institutions and central banks	91,159	5,480	-	-	-	-	2,955	99,594
Loans and advances to customers	7,997	7,240	9,965	24,598	94,048	46,400	671	190,919
Securities and investments	62	440	15,864	2,334	9,519	3,791	62	32,072
Fixed and intangible assets	-	-	-	-	-	-	11,295	11,295
Prepayments and other assets	227	-	-	-	-	-	1,368	1,595
Total assets	169,104	13,160	25,829	26,932	103,567	50,191	16,351	405,134
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	193,933	21,636	46,750	42,407	20,830	588	-	326,144
Derivative liabilities	232	3	14	5	-	-	-	254
Deferred tax liability	-	-	-	-	-	-	755	755
Accounts payable and other liabilities	2,411	-	-	-	-	-	-	2,411
Subordinated debt	4	-	-	-	-	7,671	-	7,675
Shareholders' equity	-	-	-	-	-	-	21,505	21,505
Total liabilities and shareholders' equity	242,970	21,639	46,764	42,412	20,830	8,259	22,260	405,134
Net liquidity gap	(73,866)	(8,479)	(20,935)	(15,480)	82,737	41,932	(5,909)	-
Financial commitments and contingencies								
Contingent liabilities	1,713	-	-	-	-	-	-	1,713
Financial commitments	38,706	-	-	-	-	-	-	38,706

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Total financial commitments and contingencies								
	40,419	-	-	-	-	-	-	40,419
The Bank								
As of 31 December 2007:	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
LVL'000								
Assets								
Cash and deposits with the central bank	30,711	-	-	-	-	-	17,440	48,151
Balances due from credit institutions and central banks	259,460	9,977	1,924	20	-	-	3,627	275,008
Loans and advances to customers	12,606	7,084	13,383	32,691	231,025	1,125	333	298,247
Securities and investments	23,037	2,745	311	31	-	-	1,248	27,372
Fixed and intangible assets	-	-	-	-	-	-	20,194	20,194
Prepayments and other assets	1,041	-	-	-	-	-	1,805	2,846
Total assets	326,855	19,806	15,618	32,742	231,025	1,125	44,647	671,818
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	424,912	29,327	65,784	48,636	17,614	298	-	586,571
Debt securities issued	-	79	-	-	3,514	-	-	3,593
Derivative liabilities	398	58	-	-	-	-	-	456
Deferred tax liability	-	-	-	-	-	-	848	848
Accounts payable and other liabilities	3,504	-	-	-	-	-	-	3,504
Subordinated debt	-	14	-	-	3,865	5,034	-	8,913
Shareholders' equity	-	-	-	-	-	-	41,265	41,265
Total liabilities and shareholders' equity	455,482	29,478	65,784	48,636	24,993	5,332	42,113	671,818
Net liquidity gap	(128,627)	(9,672)	(50,166)	(15,894)	206,032	(4,207)	2,534	-
Financial commitments and contingencies								
Contingent liabilities	1,820	-	-	1,449	5,799	19,199	-	28,267
Financial commitments	25,444	-	-	-	-	-	-	25,444
Total financial commitments and contingencies	27,264	-	-	1,449	5,799	19,199	-	53,711
As of 31 December 2006:								
LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and deposits with the central bank	69,659	-	-	-	-	-	-	69,659
Balances due from credit institutions and central banks	91,159	5,480	-	-	-	-	2,955	99,594
Loans and advances to customers	8,137	7,240	9,965	24,598	94,048	46,400	671	191,059
Securities and investments	62	440	15,864	2,334	9,519	3,791	548	32,558
Fixed and intangible assets	-	-	-	-	-	-	11,145	11,145
Prepayments and other assets	194	-	-	-	-	-	1,368	1,562
Total assets	169,211	13,160	25,829	26,932	103,567	50,191	16,687	405,577
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	194,285	21,636	46,750	42,407	20,880	588	-	326,546
Derivative liabilities	232	3	14	5	-	-	-	254
Deferred tax liability	-	-	-	-	-	-	755	755
Accounts payable and other liabilities	2,393	-	-	-	-	-	-	2,393
Subordinated debt	4	-	-	-	-	7,671	-	7,675
Shareholders' equity	-	-	-	-	-	-	21,564	21,564
Total liabilities and shareholders' equity	243,304	21,639	46,764	42,412	20,880	8,259	22,319	405,577
Net liquidity gap	(74,093)	(8,479)	(20,935)	(15,480)	82,687	41,932	(5,632)	-
Financial commitments and contingencies	1,713	-	-	-	-	-	-	1,713

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Contingent liabilities	38,706	-	-	-	-	-	-	38,706
Financial commitments	40,419	-	-	-	-	-	-	40,419

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39. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES – The Group

As of 31 December 2007: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non interest bearing	Total
Assets								
Cash and deposits with the central bank	29,700	-	-	-	-	-	18,451	48,151
Balances due from credit institutions and central banks	262,691	9,945	1,900	20	-	-	452	275,008
Loans and advances to customers	7,739	243,069	5,508	11,474	23,672	1,125	5,094	297,681
Securities and investments	2,934	3,434	3,976	2,226	9,090	3,395	1,677	26,732
Fixed and intangible assets	-	-	-	-	-	-	20,661	20,661
Prepayments and other assets	-	-	-	-	-	-	3,110	3,110
Total assets	303,064	256,448	11,384	13,720	32,762	4,520	49,445	671,343
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	423,457	32,652	63,116	46,373	16,068	298	4,165	586,129
Debt securities issued	3,514	-	-	-	-	-	79	3,593
Accounts payable and other liabilities	-	-	-	-	-	-	5,030	5,030
Subordinated debt	-	-	-	-	3,865	5,034	14	8,913
Shareholders' equity	-	-	-	-	-	-	41,010	41,010
Total liabilities and shareholders' equity	453,639	32,652	63,116	46,373	19,933	5,332	50,298	671,343
Total interest sensitivity gap	(150,575)	223,796	(51,732)	(32,653)	12,829	(812)	(853)	-

As of 31 December 2006: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non- interest bearing	Total
Assets								
Cash and deposits with the central bank	55,477	-	-	-	-	-	14,182	69,659
Balances due from credit institutions and central banks	94,226	5,368	-	-	-	-	-	99,594
Loans and advances to customers	7,862	152,191	5,345	10,050	14,378	333	760	190,919
Securities and investments	146	440	16,212	2,125	9,254	3,791	104	32,072
Fixed and intangible assets	-	-	-	-	-	-	11,295	11,295
Prepayments and other assets	-	-	-	-	-	-	1,595	1,595
Total assets	157,711	157,999	21,557	12,175	23,632	4,124	27,936	405,134
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	193,933	21,636	46,750	42,407	20,830	588	-	326,144
Derivative liabilities	-	-	-	-	-	-	254	254
Accounts payable and other liabilities	-	-	-	-	-	-	3,166	3,166
Subordinated debt	4	-	-	-	-	7,671	-	7,675
Minority interest	-	-	-	-	-	-	21,505	21,505
Shareholders' equity	240,327	21,636	46,750	42,407	20,830	8,259	24,925	405,134
Total liabilities and shareholders' equity	(82,616)	136,363	(25,193)	(30,232)	2,802	(4,135)	3,011	-

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The Bank

As of 31 December 2007: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non- interest bearing	Total
Assets								
Cash and deposits with the central Bank	29,700	-	-	-	-	-	18,451	48,151
Balances due from credit institutions and central banks	262,691	9,945	1,900	20	-	-	452	275,008
Loans and advances to customers	7,966	243,253	5,508	11,474	23,827	1,125	5,094	298,247
Securities and investments	2,934	3,434	3,976	2,226	9,090	3,395	2,317	27,372
Fixed and intangible assets	-	-	-	-	-	-	20,194	20,194
Prepayments and other assets	-	-	-	-	-	-	2,846	2,846
Total assets	303,291	256,632	11,384	13,720	32,917	4,520	49,354	671,818
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	423,845	32,652	63,120	46,373	16,118	298	4,165	586,571
Debt securities issued	3,514	-	-	-	-	-	79	3,593
Accounts payable and other liabilities	-	-	-	-	-	-	4,808	4,808
Subordinated debt	-	-	-	-	3,865	5,034	14	8,913
Shareholders' equity	-	-	-	-	-	-	41,265	41,265
Total liabilities and shareholders' equity	454,027	32,652	63,120	46,373	19,983	5,332	50,331	671,818
Total interest sensitivity gap	(150,736)	223,980	(51,736)	(32,653)	12,934	(812)	(977)	-

As of 31 December 2006: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non- interest bearing	Total
Assets								
Cash and deposits with the central Bank	55,477	-	-	-	-	-	14,182	69,659
Balances due from credit institutions and central banks	94,226	5,368	-	-	-	-	-	99,594
Loans and advances to customers	8,003	152,191	5,345	10,050	14,378	333	759	191,059
Securities and investments	146	440	16,212	2,125	9,254	3,791	590	32,558
Fixed and intangible assets	-	-	-	-	-	-	11,145	11,145
Prepayments and other assets	-	-	-	-	-	-	1,562	1,562
Total assets	157,852	157,999	21,557	12,175	23,632	4,124	28,238	405,577
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	194,285	21,636	46,750	42,407	20,880	588	-	326,546
Derivative liabilities	-	-	-	-	-	-	254	254
Accounts payable and other liabilities	-	-	-	-	-	-	3,148	3,148
Subordinated debt	4	-	-	-	-	7,671	-	7,675
Minority interest	-	-	-	-	-	-	21,564	21,564
Shareholders' equity	240,679	21,636	46,750	42,407	20,880	8,259	24,966	405,577
Total liabilities and shareholders' equity	(82,827)	136,363	(25,193)	(30,232)	2,752	(4,135)	3,272	-

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40. RELATED PARTIES

Related parties are defined as shareholders who have control over the Bank, members of the Council and the Board of Directors, 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 2007	Group 2006	Bank 2007	Bank 2006
Amounts receivable:				
Loans and advances to related parties:				
- Management	133	145	89	139
- Parent company	28	153	28	153
- Other related legal entities	8,678	10,016	18,576	10,156
- Other related private individuals	131	86	131	86
Financial assets at fair value through profit or loss - credit and other financial institutions bonds:				
- Parent company	659	-	659	-
Financial assets at fair value through profit or loss - currency derivative fair value:				
- Parent company	-	33	-	33
- Other related legal entities	11	7	11	7
Other assets - currency spot deal fair value :				
- Parent company	72	-	72	-
- Other related legal entities	36	3	36	3
Total loans and advances to related parties	9,748	10,443	19,602	10,577
Amounts payable:				
Deposits and funds received:				
- Management	167	11	142	-
- Parent company	4,456	6,808	4,456	6,808
- Other related legal entities	-	200	440	603
- Other related private individuals	99	145	99	145
Derivative liabilities - currency derivative fair value :				
- Parent company	1	-	1	-
- Other related legal entities	-	-	-	-
Other liabilities - currency spot deal fair value :				
- Parent company	58	-	58	-
- Other related legal entities	200	64	200	64
Total amounts payable	4,981	7,228	5,396	7,620
Credit commitments and contingencies to related legal entities				
- Management	375	480	375	468
- Other related legal entities	-	-	244	-
- Other related private individuals	697	707	697	707
Total commitments and contingencies to related parties	1,072	1,187	1,316	1,175
Profit and loss items				
Interest revenue	95	134	251	138
<i>Inc. Interest revenue from parent company</i>	3	1	3	1
Interest expense	(139)	(40)	(322)	(47)
<i>Inc. Interest expense from parent company</i>	(139)	(40)	(139)	(40)
Commission income	38	28	41	29
<i>Inc. Interest expense from parent company</i>	38	28	38	28
Other income/ expense	(87)	3	(87)	3
Total profit or loss	(93)	125	(117)	123

All deals with related parties are made in accordance with the Bank's regulations and conditions applicable to the transactions with clients.

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

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

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41. COMMITMENTS AND CONTINGENCIES

Memorandum items include the following contingent liabilities and commitments, as well as client security account balances outstanding at the end of the year:

LVL '000	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Contingent liabilities				
Outstanding guarantees	1,820	1,713	1,820	1,713
Total contingent liabilities	1,820	1,713	1,820	1,713
Financial commitments				
Credit commitments	15,052	14,435	15,296	14,435
Operating lease commitments	26,447	-	26,447	-
Other commitments	10,148	24,271	10,148	24,271
Total financial commitments	51,647	38,706	51,891	38,706
Total contingent liabilities and financial commitments	53,467	40,419	53,711	40,419

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2007 amounted to LVL 4,232 thousand (2006: LVL 3,618 thousand).

42. RISK MANAGEMENT

Introduction

The Bank has developed a system for identification, supervision and management of the main financial risks to which the Bank and the Group entities are exposed. The main risk management principles are stated in the Risk Management Policy and in the Group's internal control regulations.

The main aim of risk management is to prevent occurring of significant loss that can affect the Group's Equity and Reserves.

Identification, effective management, accordant evolution and continuous monitoring are the basic risk management principles.

Bank development and activities are closely related to exploration of new market segments. The work on internal processes and technologies that support customer services continues steadily. To ensure effective management of the risks related to those processes, automation and process documentation takes place. The tools for risk control and management are regularly improved to meet the requirements of effective risk management. Stability, continuance of processes and safety of operations are the core principles that are stated in the Bank's Information Safety Policy.

In December 2007, the Bank finished work on introducing necessary changes required by Basel 2. This fact allows the Bank to ensure regular improvement of the procedures necessary for Capital Adequacy and for management of identified and possible risks.

During the daily activities, the principle of independence and duty segregation is used to ensure more accurate analysis of risk and business factors.

Risk Management Structure

The Bank and the Group's Risk Management Policy is approved by the Council of the Bank. Principles of the Bank's Risk Management Policy are at one with the risk management principles that are determinate by the Snoras Bank.

The Board is responsible for implementation of the Risk Management Policy principles. The Board also is responsible for implementation of the risk control system that can prevent loss of assets, unauthorised management and unauthorised use. Risks that occur during daily activities should be continuously identified, monitored and managed and the Equity of the Bank is sufficient to cover the identified and possible risks. All deals should be made only in accordance with the internal regulations. The Bank, when making decisions, should follow the principles of caution, critical thinking and effectiveness, also all relevant laws and regulations should be observed.

The Board had authorized the Assets and Liabilities Management Committee to handle the risk management during the processes of asset placement and liability attracting as well as the fund-raising.

Main tasks of the Assets and Liabilities Management Committee are:

- observation of the Risk Management Policy principles, ensuring complete monitoring and management of risk;
- management of the Bank's assets according to principles of diversification between separate business lines to ensure adequate capitalization of risk;
- assess and confirm adequate and valid position limits and methodology of limit calculation.

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The Assets and Memorandum Item Assessment Committee is a permanent body mainly responsible for evaluation of all loans, other assets and memorandum items, which can be influenced by credit risk.

The Money Laundering Prevention Committee is a permanent body established to ensure and control the Bank's operations in accordance with the Republic of Latvia legislation, the Bank's policies and internal regulations, to prevent legalization of illegally acquired funds and to prevent financing of terrorism. The Committee also ensures the process of customer and transaction monitoring, cooperates with the authorized state institutions and oversees the Customer Transaction Control Unit.

Management of money laundering risks during daily activities is performed by the Customer Transaction Control Unit.

Management of other risks is performed by the Risk Management Department. The Risk Management Department is responsible for implementation of risk management principles, evaluation of risk identification tools, oversight of risk assessment and management (including IT risk), planning of the Bank's further operations and disclosure of the relevant information. Each business function has its own responsible managers, which are independent and separated from business units.

Credit risk

Credit risk relates to uncertainty in the counterparty's ability or willingness to meet its contractual obligations, thus causing financial loss for the entities within the Group. The Bank is affected by credit risk while performing daily lending operations. The credit risk is significant, it is reflected in the Balance Sheet.

The Bank is exposed to credit risk also in relation with other products, including derivatives and investments in debt securities.

The Bank can also be affected by off-balance credit risk that occurs from financial commitments like loans granted and not fully drawn down, unutilised credit lines and outstanding guarantees.

The Bank can be affected by credit risk during trading, crediting and investing activities and also while acting as intermediary or issuing guarantees to third parties.

Credit risk that occurs during investing and trading activities is managed in line with the Bank's trading risk management procedures.

Credit risk arising from potential default on the part of the Bank's counterparties in transactions with derivatives or other financial instrument is managed on a daily basis.

To prevent occurrence of credit risk, the Bank cooperates only with well-rated counterparties.

The Group's main principles for Credit Risk Management are included in the Loan Policy and are defined as follows:

- risk should be undertaken only in well known business lines;
- main source of loan repayment funds are cash flow from core business, salary and other income;
- the price of the loan product should be adequate to the customer credit risk – risk should be evaluated according to the future yield;
- the customer must be able to provide adequate contribution to the project financing;
- each collateral must be liquid and sufficient for covering possible loss;
- the loan should be issued only for a certain definite aim, the term structure of the loan should be consistent with the aim;
- there are standardized criteria and procedures for handling lending transactions;
- risk control should be arranged through segregation of the employee functions and adoption of the limitation system.

The core principle of credit risk management is adequate estimation of customer ability to repay debt, as customer related risk increases, customer ability to repay must be analyzed more accurate. The Bank monitors customer ability to repay and collateral actual value on regular basis. The Assets and Memorandum Item Assessment Committee performs assessment of loan actual value on a monthly basis. The Risk Management Department is responsible for development of loan valuation methodology and for use of such methodology in all Group entities.

The Bank carries out a stress test to test possible impact of different events on capital adequacy of the Bank and the Group.

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Maximum exposure to credit risk

The table represents maximum exposure of different financial instrument groups to credit risk before taking into account any collaterals held or other credit enhancements.

LVL '000	Note	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Demand deposits with the central bank	13	30,711	53,617	30,711	53,617
Balances due from credit institutions and central banks	14	275,008	99,594	275,008	99,594
Loans and advances to customers	15	297,681	190,919	298,247	191,059
Financial assets at fair value through profit or loss	16	21,985	17,535	21,985	17,535
Held-to-maturity investments	18	4,747	14,495	4,747	14,495
Total		630,132	376,160	630,698	376,300
Contingent liabilities	41	1,820	1,713	1,820	1,713
Financial commitments	41	25,200	14,435	25,444	14,435
Total	41	27,020	16,148	27,264	16,148
Total amount that can be affected by credit risk		657,152	392,308	657,962	392,448
Credit risk concentration to single customer		55,660	53,617	55,660	53,617

The Board has approved a regulation that the loan amount to a single customer or a group of related customers should not exceed the limit of 25% of the Group's equity.

On 31 December of 2007, the largest loan to a single customer was LVL 6,817 thousand (2006: LVL 3,719 thousand). The loan collateral value amounts to LVL 17,000 thousand.

There also are certain limits for industries in the Group. The maximum amount (35%) is set for lending operations related to real estate purchase and management (the actual figure was 27.4% in 2007 and 24.3% in 2006). Quality of such loans can be classified as outstanding.

Limits exist also by the loan type – the largest limit is for mortgage loans and should not exceed 45% of the total portfolio (the actual figure was 25.4% in 2007 and 30.1% in 2006).

The Bank had also set limits for country risk – the maximum limit at 600% of the equity applies to investments in the countries with the highest financial environment rating (Fitch AAA, Moody's Aaa). There are no country risk limits for investments in the Republic of Latvia.

Maximum exposure to credit risk by industry

The table represents the Bank's (and the Group's) maximum exposure to credit risk by industry before taking into account any collaterals held or other credit enhancements:

LVL'000	Gross maximum exposure 31.12.2007	Gross maximum exposure 31.12.2006
Private individuals	164,696	124,770
Government	10,465	26,486
Real estate purchase and management	39,330	19,695
Retail trade and wholesale distribution	17,504	11,662
Extractive manufacturing	1,079	1,175
Manufacturing	16,295	9,698
Hotels and restaurants	11,263	6,736
Agriculture and forestry	7,836	6,811
Financial intermediaries	341,394	161,835
Construction	6,754	5,467
Transport and communications	19,854	2,800
State administration and healthcare	1,777	1,873
Electricity, gas and water utilities	1,463	1,171
Other	18,252	12,269
Total	657,962	392,448

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Maximum exposure to credit risk by countries

The table represents the Bank's (and the Group's) maximum exposure to credit risk by countries and regions before taking into account any collaterals held or other credit enhancements.

LVL'000	31.12.2007	31.12.2006
Latvia	401,290	331,964
Europe Union	152,006	36,342
Other Europe	34,353	6,071
North America	43,060	3,464
Ex-CIS states	19,123	14,317
Other	8,130	290
Total	657,962	392,448

Credit quality per class of financial assets

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

Financial assets grouping is provided according to regulations of Basel2. The Bank's (and Group's) loan portfolio does not contain loans to customers with international credit rating.

As of 31 December 2007:						
LVL'000	Neither past due nor impaired				Past due or impaired	Total
	High grade	Standard grade	Sub-standard grade	Individually evaluated without grade		
Demand deposits with the central bank	30,711	-	-	-	-	30,711
Balances due from credit institutions and the central bank	206,886	31,192	8,717	28,213	-	275,008
Loans and advances to customers	-	-	-	253,392	44,855	298,247
Financial assets at fair value through profit or loss	13,907	5,697	-	2,090	-	21,694
Held-to-maturity investments	1,903	757	-	2,087	-	4,747
Derivative financial instruments	2	-	11	278	-	291
Total	253,409	37,646	8,728	286,060	44,855	630,698

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As of 31 December 2006: LVL'000	Neither past due nor impaired				Past due or impaired	Total
	High grade	Standard grade	Sub-standard grade	Individually evaluated without grade		
Demand deposits with the central bank	53,617	-	-	-	-	53,617
Balances due from credit institutions and the central bank	13,707	1,345	8,225	76,317	-	99,594
Loans and advances to customers	-	-	-	170,196	20,863	191,059
Financial assets at fair value through profit or loss	14,206	2,448	-	845	-	17,499
Held-to-maturity investments	14,070	211	-	208	-	14,489
Derivative financial instruments	-	33	6	3	-	42
Total	95,600	4,037	8,231	247,569	20,863	376,300

Ratings can be grouped according to their values (the example represents values used by Moody`s).

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

The Bank (and the Group) doesn't use internal credit rating system to manage the quality of loans and advances to customers.

LVL'000	31.12.2007		31.12.2006		31.12.2006	
	Standard	Past due or individually impaired	Total	Standard	Past due or individually impaired	Total
Demand deposits with the central Bank	30,711	-	30,711	53,617	-	53,617
Balances due from credit institutions and central banks	275,008	-	275,008	99,594	-	99,594
Loans and advances to customers	253,392	44,855	298,247	170,196	20,863	191,059
Financial assets at fair value through profit or loss	21,694	-	21,694	17,493	-	17,493
Held-to-maturity investments	4,747	-	4,747	14,495	-	14,495
Derivative instruments	291	-	291	42	-	42
Total	585,843	44,855	630,698	355,437	20,863	376,300

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Aging analysis of past due but not impaired loans per class of financial assets (Bank and Group)

As of 31 December 2007:					
Past due but not impaired loans					
LVL'000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Private individuals	11,352	82	3,649	1,684	16,767
Enterprises	22,300	30	480	425	23,235
Total	33,652	112	4,129	2,109	40,002

As of 31 December 2006:					
Past due but not impaired loans					
LVL'000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Private individuals	6,976	1,618	722	2,053	11,369
Enterprises	6,117	707	224	1,963	9,011
Total	13,093	2,325	946	4,016	20,380

Gross loans and advances to customers by type of collateral (Bank and Group)

As of 31 December 2007:			
LVL'000	Private individuals	Other	Total
Real estate	121,497	85,607	207,104
Term deposits	554	13	567
Fixture	319	13,296	13,615
Commercial collateral	40	27,235	27,275
Guarantee	775	828	1,603
Other collateral and without collateral	36,442	13,886	50,328
Total	159,627	140,865	300,492
Charged allowance for impairment	1,227	1,018	2,245

As of 31 December 2006:			
LVL'000	Private individuals	Other	Total
Real estate	90,609	59,841	150,450
Term deposits	276	10	286
Fixture	147	242	389
Commercial collateral	2,176	14,172	16,348
Guarantee	1,024	272	1,296
Other collateral and without collateral	23,591	1,549	25,140
Total	117,823	76,086	193,909
Charged allowance for impairment	1,240	1,610	2,850

Carrying amount per class of financial assets (loans and advances to customers) with renegotiated terms (Bank and Group):

LVL'000	2007	2006
Enterprises	5,674	3,227
Private individuals	2,079	1,663
Total	7,753	4,890

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Carrying amount per class of financial assets with renegotiated terms represent the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

See Note 15 for more detailed information with respect to the allowance for impairment losses on loans and advances to customers.

Impairment assessment

Assets and off-balance liabilities of the Bank and the Group are rated on a monthly basis to record loans in the balance sheet at fair value. The main criterion for the loan evaluation is the customer's ability to repay the loan. At the moment of evaluation all important factors that affect the value of loan are taken into account:

- the customer's loan history,
- the customer's financial position,
- the customer's financial performance and projections,
- reasonable use of the loan, analysis of sufficiency of current and future cash flow for loan repayment,
- collateral and guarantees, their market value, etc.

Where the decision on issue of the loan is made by evaluating the collateral, its fair value should be evaluated at the lowest possible value, using the principle of caution.

If the due date has passed or if it seems that the borrower might not be able to make the payments as they become due, impairment allowances are charged. The amount of the allowance charge is calculated based on the difference between the loan's carrying value and the recoverable amount or present value of estimated future cash flows, including realization value of the collateral and guarantees, discounted by the initial effective interest rate.

The Bank determines loan impairment on an individual and collective basis. Based on the individual assessment of the loan, it can be rated as standard, supervised, sub-standard, doubtful and lost.

If there is no any doubt about repayment, the loans are classified as *standard*.

Supervised loans are the loans which will take additional monitoring and control, because there are some doubts about future payments from the customer. A loan can be classified as supervised if the due date passed less than 90 days ago but there is no doubts about covering debt from the collateral value.

Sub-standard loans are the loans that show definite signs of the probability that the loans will not be repaid in full and the Bank would incur some loss. The due date has passed more than 90 days ago, yet the collateral is reliable. The loan payments are irregular.

Doubtful loans – there is great probability of the Bank incurring losses, however, it is hard to determine the exact amount of the loss. There is a significant decrease in liquidity of the customer and doubts about covering the loss through realization of the collateral.

Lost loans – loans that do not have any actual value, enterprises have been declared bankrupted.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity price.

Interest rate risk

Interest rate risk is determined to the extent of the effect that changes in the market rates have on the Bank's profit and net interest income, as well as equity. Net interest income will change due to fluctuation between interest revenue earned on assets and interest expense spent on liabilities.

Interest rate risk indicates the market risk impact on the financial situation of the Group and the Bank.

To determine possible interest rate impact on the Bank's future income and the amount of equity, the Bank uses GAP analysis method.

GAP analysis – analysis of difference between assets and liabilities that can be affected by repricing.

While using GAP analysis, Bank determines value that can describe amount of interest rate risk – sensitiveness to interest rate change. Risk impact on Statement of Profit and Loss is determined while changing actual interest rate by 100 base points.

To calculate the amount of interest rate risk, Bank uses cumulative weighted GAP with the remaining term of 1 year. The acceptable amount of possible impact on the Bank's income or equity market value should not exceed 5% of equity. The Council has approved such restriction.

Treasury performs interest rate control and supervision on daily basis.

The Assets and Liabilities Management Committee evaluates the interest risk value on a monthly basis.

The Risk Management Department regularly informs the Board about the situation.

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The Bank does not use VaR method to determine the risk impact amount, because there are few assets that are classified as trading portfolio in the balance sheet and the Bank's Investment Policy does not foresee any involvement into speculative deals.

The following table shows the split of interest bearing assets in their nominal value as of 31 December 2007 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and deposits with the central bank	29,700	-	29,700
Balances due from credit institutions and the central bank	273,174	3,627	276,801
Securities	22,610	2,445	25,055
Loans and advances to customers	50,337	242,816	293,153
Total interest bearing assets	375,821	248,888	624,709
Balances due to the central bank and credit institutions	26,668	-	26,668
Deposits from the customers	354,561	223,962	578,523
Debt securities issued	-	3,514	3,514
Subordinated liabilities	8,899	-	8,899
Total interest bearing liabilities	390,128	227,476	617,604

The following table shows the split of interest bearing assets in their nominal value as of 31 December 2006 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and deposits with the central bank	54,273	-	54,273
Balances due from credit institutions and the central bank	96,527	3,067	99,594
Securities	31,495	473	31,968
Loans and advances to customers	38,034	151,892	189,926
Total interest bearing assets	220,329	155,432	375,761
Balances due to the central bank and credit institutions	39,308	7,082	46,390
Deposits from the customers	290,883	35,365	326,248
Subordinated liabilities	7,675	-	7,675
Total interest bearing liabilities	337,866	42,447	380,313

Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant of the Bank's and the Group's income statement and equity for the currencies to which the Bank and the Group had significant exposure at 31 December 2007.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the repricing maturity analysis of financial assets and financial liabilities held at 31 December 2007, including the effect of hedging instruments. Additional effect on profit before taxes is calculated by revaluing fixed rate financial assets at fair value at 31 December 2007 for the effects of the assumed changes in interest rates.

Currency	Interest rate increase/decrease in base points 2007	Effect on profit before taxes 2007	Effect on Equity pre-tax 2007	Interest rate increase/decrease in base points 2006	Effect on profit before taxes 2006	Effect on Equity pre-tax 2006
LVL	+200	744	-	+150	411	-
EUR	+50	(28)	-	+50	85	-
USD	+50	22	-	+50	92	-
LVL	-200	(719)	-	-150	(388)	-
EUR	-50	33	-	-50	(84)	-

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USD	-50	(22)	-	-50	(91)	-
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Currency risk

The Bank manages foreign exchange risk by establishing and regulating the principles related to foreign exchange risk control and governance to minimize the impact of exchange rate volatility on income statement.

Foreign exchange risk arises if the Bank has an open position in currency, which is subject to rate fluctuations.

The open currency position can arise:

- from the Bank's core business operations – customer driven currency buying/selling transactions, foreign exchange transactions in open market, issuance of loans and acceptance of deposits;
- by engaging in speculative foreign exchange transactions;
- as a result from internal foreign exchange transactions;
- through expenses in foreign currency.

The foreign currency open position limits are regulated by the legislative acts of the Republic of Latvia.

The Bank's Council has approved the following limits. The foreign currency position limit for individual currencies is defined as maximum 10% of the equity. The foreign currency position limit in aggregate is defined as maximum 20% of the equity.

To restrict foreign exchange risk the Bank chooses the most favourable hedging method that is appropriate for hedging the particular risk. Hedging tools are chosen depending on currency, term, amount and associated expenses. The Bank employs the following financial instruments to hedge foreign exchange risk:

- *spot* and *forward* fx deals;
- currency SWAPs.

The Treasury Department ensures the Bank's operation within the limits approved in Foreign Currency Risk Management Policy. The Risk Management Department controls compliance with the limits stated in the policy and reports to the Bank's Board.

Sensitivity analysis of foreign exchange deals

The table represents the Bank's and the Group's sensitivity analysis of EUR currency. The Bank and the Group has a significant open position in this currency so there is possible future impact on the Bank's and the Group's income statement and equity.

Currency	Change in currency rate % 2007	Effect on P/L before taxes 2007	Effect on Equity pre-tax 2007	Change in currency rate % 2006	Effect on P/L before taxes 2006	Effect on Equity pre-tax 2006
EUR	+1.7	29	-	+1.8	420	-
EUR	-0.3	(5)	-	-0.2	(47)	-

Management of liquidity risk and investments

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

The Council of the Bank has accepted the liquidity management policy.

Liquidity policy determines the permitted difference between the Bank's assets and liabilities, evaluating them according to the repayment term, managing, overseeing and planning changes in the Bank's demand deposits, cash and also investing certain part of assets into liquid financial instruments and short term assets.

Liquidity is managed to meet the required conditions:

- the Bank's assets should be placed in the manner allowing access to them anytime it is necessary to ensure the necessary liquidity conditions;
- to ensure liquidity ratio in accordance with the liquidity regulations;
- to ensure compliance with the internal liquidity limits.

Liquidity risk may occur if:

- the Bank is not able to cover its liabilities and to ensure performance of the transactions by the Bank and customers;
- the Bank's ability to repay decreases due to external factors.

The Bank's current liability base consists of:

- demand deposits by customers (private individuals and legal entities) ;
- term deposits by customers;
- other financial resources, which the Bank has attracted as payment for services etc. (money in transit);
- issued debt securities;

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- off-balance liabilities, if there is possibility that the counterparty may require their settlement;

Liquid assets are the following assets:

- cash;
- demand deposits with central banks and other credit institutions;
- balances due from central banks and other credit institutions, if the maturity does not exceed 30 days, and other assets, if the transaction terms permit early withdrawal of the funds (even if additional fee will be charged);
- investments in financial instruments, if there is possibility to sell them very quickly without suffering serious loss.

Loans and advances to customers are not classified as liquid assets.

To assess the difference between assets and liabilities in each period as well as the possibility of covering it from demand deposits and deposits with a 1 month withdrawal notice, the Bank uses statistical information on "sticky" deposits.

Bank has set a limit for deposits that can be accepted from one person or a group of related persons.

While managing liquidity, the Bank assesses its assets and liabilities according to the term structure:

- the repayment and selling dates for the assets are set according to the contracts and notices about early withdrawal;
- assets that are invested with an option of receive them on demand can be classified as demand investments;
- maturity of investments held for trading and investments available for sale that can be sold quickly without significant loss and also other financial instruments that can be used as collateral to receive a loan can be classified based on the conditions of the deal;
- assets that do not have any definite selling date are open-ended assets;
- assets or any part thereof that are past due more than 14 days can be classified as past due assets.

The Bank maintains the liquidity ratio at least equal to 30% of total current liabilities.

The Treasury plans the asset and liability term structure and necessary liquid asset amount on a daily basis.

The Risk Management Department regularly examines the liquidity ratio and informs the Board about volatility. The principles of managing high risk transactions (transactions with a single customer or a group of related customers in excess of 10% of the Bank's equity) are defined in the Liquidity Management Policy.

The Risk Management Department is responsible for control of compliance of high risk transactions with internal regulations and limits within all Group entities.

There also are definite measures that should be carried out upon occurrence of any payment or liquidity crisis, and the responsible persons have been granted the necessary powers to act if any warning signs are noticed.

The Investment Policy regulates investment of available resources in financial instruments as part of the investment portfolio.

This policy states all aims, requirements, allowed financial instruments and describes the principles of portfolio management and supervision as well as sets the rules for value assessment.

The Investment Policy is approved by the Council and the Board of the Bank.

Changes in the policy are introduced based on proposals from the Assets and Liabilities Management Committee.

Changes in the Investment Policy are implemented at least once in a year.

The Assets and Liabilities Management Committee also defines the investment portfolio management strategy and structure by approving limits for investment and financial instrument groups.

The Treasury, the Investment Department and the Risk Management Department ensure compliance of the investments with the financial targets set by the Bank.

The Bank's liquidity ratio during the year was as follows:

	2007	2006
	%	%
Average during the period	53.27	62.00
Highest	72.75	77.59
Lowest	46.14	54.95

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The table represents analysis of the term structure of the Bank's and the Group's financial liabilities and off-balance liability after non-discounted contractual cash flows:

As of 31 December 2007:	Less than 1 month	1 to 3 months	3 to 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
LVL`000							
Liabilities							
Balances due to the central bank and credit institutions	26,673	-	-	-	-	-	26,673
Deposits from the public	425,059	29,712	67,731	51,054	19,429	298	593,283
Debt securities issued	-	94	-	94	3,798	-	3,986
Derivative financial instruments	398	58	-	-	-	-	456
Subordinated debt	47	131	179	357	6,701	5,441	12,856
Total financial liabilities	452,177	29,995	67,910	51,505	29,928	5,739	637,254
Total contingent liabilities and financial commitments	27,264	-	-	1,449	5,799	19,199	53,711
Total financial liabilities, contingent liabilities and financial commitments	479,441	29,995	67,910	52,954	35,727	24,938	690,965
As of 31 December 2006:							
LVL`000	Less than 1 month	1 to 3 months	3 to 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities							
Balances due to the central bank and credit institutions	46,395	-	-	-	-	-	46,395
Deposits from the public	194,370	21,907	47,673	44,227	22,837	655	331,669
Derivative financial instruments	232	3	14	5	-	-	254
Subordinated debt	50	100	149	299	2,391	8,574	11,563
Total financial liabilities	241,047	22,010	47,836	44,531	25,228	9,229	389,881
Total contingent liabilities and financial commitments	40,419	-	-	-	-	-	40,419
Total financial liabilities, contingent liabilities and financial commitments	281,466	22,010	47,836	44,531	25,228	9,229	430,300

Operational risk management.

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.

Bank has developed the Operational Risk Management Policy.

The main aim of operational risk management is to ensure identification of the Bank's processes exposed to operational risk, to analyze and mitigate the causes and potential loss.

In 2007 the Group developed a system for identification of operational risk factors. The system ensures gathering of operational risk events related information.

The Bank facilitates development of operational risk management environment and takes measures to reduce the possibility of operational risk occurrences by:

- developing already existing internal regulations and procedures and creating new procedures before the Bank starts offering new products;
- introducing changes to the Bank's structure and management model;
- ensuring participation of structural unit managers into operational risk management process;
- ensuring involvement of internal control bodies and increasing efficiency of their operations;
- improving the system for defining transaction limits and signature rights;
- facilitate segregation of functions in the Bank's operations;
- expanding the use of the „four eyes“ principle in authorization of all major deals;
- ensuring mutual authorization of all major deals;
- updating the Bank's contingency plan;
- creating the strategy for response to emergencies;
- implementing recommendations by internal and external auditors;
- ensuring training of the employees;
- by ensuring continuity of the operational risk management process.

The Bank continuously takes measures to prevent or decrease occurrence of operational risk:

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- information about development, approval and implementation of the Bank's key products, operations, assets, processes and systems is being analysed;
- possible threats to major positions are being identified;
- factors affecting risk occurrence are being identified;
- types of risks, likely consequences and possible control measures are being analysed;
- several other risk mitigation measures are being implemented (avoidance, prevention, mitigation, insurance).

The Risk Management Department is responsible for process of risk identification and mitigation. All the Bank's structural units are responsible for identification, mitigation and prevention of operational risk.

- the head of each unit has designated a person responsible for identification and reporting of the structural unit's operational risk;
- the responsible employees also prepare reports about operational risk occurrences within the structural unit which include information about internal data, external events and market conditions that may materially affect the Bank's operations as well as about results of the operational risk monitoring and the problems identified.

The Risk Management Department is responsible for management and coordination of the operational risk managing process. All gathered information is assessed and a monthly report about the operational risk level is prepared for the Board and unit managers.

Information is being analyzed to develop the Bank's operational risk management practice and to improve the necessary management processes and internal procedures.

43. CAPITAL

The Bank maintains its capital resources at a level sufficient to sustain financial operations appropriate to its activities, volumes and risks. The Law on Credit Institutions stipulates the minimum requirement with respect to the ratio of the Bank's capital resources to risk weighted assets and memorandum items at 8%.

The Financial and Capital Market Commission has developed rules regulating the calculation of the capital requirements. In 2007 the Bank has fully complied with the regulatory capital adequacy requirements.

Capital Management

The Bank determines the required capital resources by assessing the capital required to cover the risks associated with its current and prospective activities, plans the measures to maintain the capital, and ensures that the available capital is at all times larger than or equal to the required capital resources.

The Bank ensures that its capital is at all times larger than or equal to the total of the following requirements:

- Credit risk and residual value impairment risk capital requirement
- foreign exchange risk and commodity price risk capital requirement
- debt and equity price risk capital requirement
- settlement risk and counterparty risk for trading book transactions.

The Bank carefully monitors the Bank's capitalisation level by analysing the possible changes in legislation, regulations and standards and forecasting possible impact of economic and political factors on the results of the activities by the Bank and clients.

To ensure the adequacy of the capital structure to the capital management strategy (capitalisation increase) the Bank plans to increase its capital mainly by raising Tier 1 capital. The attraction of subordinated capital is planned to ensure the Bank's capitalization level in the circumstances of the rapid economic expansion. The Bank includes fixed asset revaluation reserve in the Tier II capital, if material changes occurred to the value of its assets. The revaluation value is the lowest of the real estate value estimates provided by two certified real estate valuation experts.

	Group 31.12.2007	Group 31.12.2006	Bank 31.12.2007	Bank 31.12.2006
Total risk weighted assets and memorandum items	386,571	230,606	387,311	231,049
Required regulatory capital	30,926	18,449	30,985	18,484
Tier I	34,458	17,760	34,846	17,939
Tier II	11,872	9,652	11,872	9,652
Less significant investment in other credit and financial institutions	-	-	-	(481)
Equity to be utilised in the capital adequacy ratio as defined by the Financial and Capital Market Commission guidelines	46,330	27,412	46,718	27,110
Capital adequacy ratio	12.0%	11.9%	12.1%	11.7%
Tier I capital adequacy ratio	8.9%	7.7%	9.0%	7.6%
Tier II capital adequacy ratio	3.1%	4.2%	3.1%	4.1%

Bank has chosen the basic approach in capital adequacy calculation.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Latvijas Krājbanka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Latvijas Krājbanka and its subsidiaries (hereinafter - the Group) and the accompanying financial statements of AS Latvijas Krājbanka (hereinafter the Bank) for the year ended 31 December 2007 (jointly "financial statements"), set out on pages 9 through 57 which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2007 (included on pages 3 through 5 of the accompanying 2007 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

Ernst & Young Baltic SIA
License No. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Latvian Sworn Auditor
Certificate No. 124

Rīga, 29 February 2008