

AS Latvijas Krājbanka

Consolidated Report

**for the 6 month period
ended 30 June 2007**

**The Consolidate interim financial statements
for the 6 month period ended 30 June 2007 is the
reflection of the consolidated interim financial
statement dated 31 August 2007 in euro currency.
This statement has informative character.**

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STATEMENT OF THE MANAGEMENT

During the first half of year 2007 the JSC "Latvijas Krājbanka" (LKB) continued strengthening its positions on the market, which brought positive results in the bank and in separate segments in particular. The Bank's success was also indicated by the residents' polls, in which the LKB had high ranking in terms of recognition, safety and other factors. The LKB with its more than 80-year experience is a stable bank with a successful strategy.

Financial Data

On June 30th 2007 the audited profit of the enterprises owned by LKB reached EUR 2 887 thousand after-tax, which is EUR 680 thousand or 31% more than in 2006. The total of the Group's assets on June 30th 2007 reached EUR 710 million, also indicated of having increased by EUR 133.88 million or 23.2% when comparing to the total assets earlier in the year. In turn, the growth of the balance of deposits in the first half of 2007 was EUR 85.91 million or 18.5% (from EUR 464.05 million up to EUR 549.96 million), but the growth of granted loans – EUR 68.15 million or 25% (from EUR 271.65 million up to EUR 339.79 million).

Overall, the speed of growth of LKB profit, assets and deposits in the first half of 2007 exceeded the respective ratios of growth in the banking sector.

In the first half of 2007 the profit growth of the Group enabled the increase of net interest income by EUR 3 332 thousand or 49.8% (compared to the 1st half of 2006) and the growth of net commission income by EUR 380 thousand or 11.5%.

Since the beginning of 2007 the consumption loan portfolio grew by 49%, but the mortgage loan increase comprised 25%, and by the 30th of June 2007 the mortgage loan portfolio amounted to 104 million EUR. The business-crediting portfolio amount reached 125 million EUR, when comparing to the beginning of year 2007, it has increased by 18 %.

Despite the aggressive competition existing in the sector of Latvian commercial banks, LKB retains stable market positions. Comparing to the situation on June 30th 2006, LKB market share of assets grew from 2.1% to 2.7%, but the market share of deposits - from 3.4% to 4.4%.

Major achievements and decisions

During the first half of 2007 the bank moved its corporate headquarters to the newly built administrative building commissioned by the bank, situated at 15 Jāņa Daliņa Street in Riga.

The LKB bought the JSC "Pirmais atklātais pensiju fonds" (First Open Pension Fund), which was previously owned by the Commercial Bank "Baltikums". The LKB thus became the holder of 100% of the company's shares. New board and council were elected for the company. Currently the company is working on the development of two new pension plans, whose targeted audience will be the existing clients and also new customers interested in pension plans.

The LKB has already started successful work in the market of the 2nd tier pension, which is state funded. The acquired experience and achieved results are a solid foundation for offering the 3rd tier pension among the service listings of the bank.

Also, next year the LKB will continue supporting the major Latvian cultural event - the Song and Dance Celebration. On July 9th 2007 the protocol of intent was signed, certifying the support of our bank to the Overall Latvian Song And Dance Celebration 2008. The LKB will provide identification cards to all participants of the Song And Dance Celebration. The LKB is ready to undertake the responsibility and will do everything in its ability to make the celebration unforgettable to Latvian residents and foreign guests.

Major news in Bank's products and services

This January two investment funds were established - the "LKB Bond securities fund" and the "LKB Balanced fund", which are managed by the LKB enterprise "Astra Krājfondi". Within half a year the LKB balanced investment fund reached the best results among balanced investment strategy funds. Since its establishment the profitability of the fund was 14.21 % per year (data for June 30th 2007). The investments of the LKB balanced fund allows low-risk return on investments comparable to the level of return on aggressive investments. The LKB Balanced fund profitability substantially exceeded the inflation level during the period.

The number of clients who signed up for the 2nd tier pension plans offered by the LKB enterprise "Astra Krājfondi" reached 51 552 by the end of the first half of 2007. The total revenue of the 2nd tier pension plans, "Astra Krājfondi", comprised 9.8 million EUR. The pension plans, offered by the LKB showed excellent results in terms of profitability - plans "Klasika" and "Komforts" reached the highest profitability among conservative and balanced strategy pension plans respectively.

STATEMENT OF THE MANAGEMENT

The Bank continued expanding the broker service possibilities. The LKB offers its clients to perform financial transactions not only on the Baltic stock markets, but also on foreign stock markets (Europe, the USA, Russia, etc.)

The public offer of the LKB 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 3.98 million EUR.

The number of currency transaction at the LKB has grown rapidly. Clients are offered profitable terms for future currency transactions and currency exchange.

The Consumption Crediting service sector continues rapid development and the Consumer Loan offered by the LKB plays a considerable role in its expansion. Portfolio increase was achieved by 48% since the beginning of 2007 thanks to the active product sale and client opinion polls. This has created competitive advantages for the LKB among rival banks. At the same time the LKB could improve the common portfolio quality, by offering higher-level service and individual access to every clients` situation.

The LKB continues active work in the mortgage-crediting sphere for individuals by funding various objects and real estate transactions – property purchases, repairs and construction. Even after changes in the legislation slowing down the pace of crediting was passed, the LKB portfolio continued to grow. The half-year increase of the portfolio was 25% also with an increase in profitability.

The LKB will continue active work in the private crediting sphere by implementing new ideas, showing different work approaches and by offering its clients modern and convenient crediting services.

According to the market research and consultation company "Euro Data", the number of the LKB online bank users has grown most rapidly among all Latvian banks. Compared with the beginning of 2005, the number of LKB online bank users has grown very rapidly – by 60% and the total number of users reached 96000. The JSC LKB continues implementing different projects in order to facilitate clients to perform transactions not only by using out wide Client service centre network, but also by using the Online bank and Telephone banking system.

By the end of the first term of 2007 the LKB already had 95 Client service centres, 20 of which were the mini banks. The bank has also developed 12 new Automated teller machines, and by the end of the term the number of ATMs was 158. The LKB continues expanding the bank's network throughout Latvia.

Public activities

There has been a significant increase in the reputation of the bank. In the Top of enterprises, made by newspaper "Diena" in cooperation with the public relations company "Nords Porter Novelli", the LKB ranked as the 37th, leaving behind the majority of banks and enterprises, working in the sector of economics. It was a climb 4 positions up in the reputation Top.

The LKB is the second well-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 the LKB. The research results show that the higher indices of the LKB recognition is among residents at age from 35 to 44 years (87,3%) and at the age from 18 to 24 years (85,9%). At the same time the residents consider LKB one of the most reliable banks in Latvia. The sociological poll results, made by the Economic research institute, ranked LKB in the fourth place with 27,6%.

During the first half of the 2007 the LKB continued strategic promotion of the Latvian musical and cultural life, by supporting several important cultural events. The LKB has also become the main sponsor of the "Latvian Annual Music Award 2006". This event in the music life is very special with a lot of nominees of different music styles. The LKB supported also 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 collaboration with Latvijas Krājbanka.

In the first half of 2007 the LKB made achievements not only in the financial sector, but also in sports. In the traditional Bank basketball cup tournament, which became a tradition since 1993, the LKB won the championship cup. LKB has also concluded the collaboration agreement with the basketball club "Valmiera", which is a promising team, showing the great play not only in Latvia, but also in the whole Baltic region.

STATEMENT OF THE MANAGEMENT

In order to help the state solving the topical problem and minding its clients and their safety, the LKB in collaboration with the State police presented reflectors throughout Latvia. This campaign got responsiveness 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 the LKB throughout Latvia.

Yours faithfully,

Raimondas Baranauskas
Chairman of the Council

Mārtiņš Bondars
Chairman of the Board / President

Riga,
31 August 2007

As at 30 June 2007 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/ 29/09/2006
Aleksandrs Antonov	Deputy Chairman of the Council	28/10/2005/ 29/09/2006
Naglis Stancikas	Member of the Council	28/10/2005/ 29/09/2006
Olegs Suhorukov	Member of the Council	28/10/2005/ 29/09/2006
Chartres Michael Duncan	Member of the Council	23/03/2007
Dmitrijs Jakovļevs	Member of the Council	23/03/2007
Žoržas Šarafanovičius	Member of the Council	23/03/2007

Based on the shareholder meeting minute dated 23/03/2007 Veronika Dolenko was not reappointed.

There have been no other changes in the composition of the Supervisory Council from 30 June 2007 until the date of signing these financial statements.

As at 30 June 2007 the members of the Management Board of the Bank were as follows:

Management Board

Name, surname	Position	Date of appointment
Mārtiņš Bondars	Chairman of the Board / President	03/07/2006
Dzintars Pelbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006
Svetlana Ovčinnikova	Member of the Board	19/06/2006
Andrejs Surmačs	Member of the Board	28/10/2005
Ēvalds Trukšāns	Member of the Board	27/12/2005

Changes in the composition of the Management Board of the Bank for the 6 month period ended 30 June 2007.

Name, surname	Position	Date of recede
Jānis Tukāns	Member of the Board	01/06/2007

Changes in the composition of the Management Board of the Bank from 30 June 2007 until the date of signing these financial statements.

Receded

Name, surname	Position	Date of recede
Ēvalds Trukšāns	Member of the Board	17/07/2007

Elected

Name, surname	Position	Date of appointment
Ilze Bagatska	Member of the Board	17/07/2007
Ivars Priedītis	Member of the Board	17/07/2007

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 to 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, statutes and decisions of the shareholders. The Council approval is necessary for certain Board decisions. They refer to approval of policies, budget, operation with real estate, opening of the branch 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 in internal audit.

The Board do not have rights to make the decisions regarding any issuance or buy back of Bank's shares. This is the scope of the shareholder's 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 18 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 30 June 2007, the results of its operations, changes in shareholders' equity and cash flows for the 6 month period 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

Riga,
31 August 2007

AS LATVIJAS KRĀJBANKA
INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2007 TILL 30 JUNE 2007

EUR '000	Group 30.06.2007	Group 30.06.2006	Bank 30.06.2007	Bank 30.06.2006
Interest income	18,911	10,697	18,953	10,694
Interest expense	(8,883)	(4,001)	(8,896)	(4,005)
Net interest income	10,028	6,696	10,057	6,689
Commission and fee income	4,977	4,311	4,913	4,289
Commission and fee expense	(1,298)	(1,012)	(1,293)	(1,009)
Net commission and fee income	3,679	3,299	3,620	3,280
Profit on sale of securities and foreign exchange trading	1,732	965	1,731	970
Other operating income	733	758	713	758
Operating income	16,172	11,718	16,121	11,697
Personnel expense	(6,049)	(4,580)	(5,943)	(4,572)
Depreciation and amortisation expense	(1,299)	(1,217)	(1,293)	(1,215)
Other operating expenses	(4,839)	(3,338)	(4,774)	(3,328)
Total operating expenses	(12,187)	(9,135)	(12,010)	(9,115)
Impairment losses	3 (1,244)	(803)	(1,244)	(802)
Reversal of impairment losses	719	785	719	785
Profit before corporate income tax	3,460	2,565	3,586	2,565
Corporate income tax	(573)	(358)	(571)	(358)
Profit for the reporting period	2,887	2,207	3,015	2,207
Basic earnings per share (in lats per share)	0.303	0.317	0.242	0.242
Diluted earnings per share (in lats per share)	0.242	0.195	0.252	0.195

The accompanying notes on pages 13 to 18 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
BALANCE SHEET
AS AT 30 JUNE 2007

EUR '000	Notes	Group 30.06.2007	Group 31.12.2006	Bank 30.06.2007	Bank 31.12.2006
Assets					
Cash and deposits with the central bank		37,242	99,116	37,242	99,116
Balances due from credit institutions and the central bank		257,114	141,709	257,072	141,709
Loans and advances to customers		339,802	271,653	340,172	271,853
Financial assets at fair value through profit or loss		44,331	25,010	44,331	25,010
Held-to-maturity investments		6,599	20,625	6,599	20,625
Investment in associate	4	-	-	910	691
Intangible assets		1,804	1,289	1,625	1,118
Fixed assets		20,961	14,782	20,760	14,739
Prepayments and accrued income		606	578	605	578
Other assets		1,867	1,692	1,800	1,645
Total assets		710,326	576,454	711,116	577,084
Liabilities					
Balances due to the central bank and credit institutions		105,469	66,007	105,469	66,007
Deposits from the customers		549,964	464,061	550,600	464,633
Issued debt instrument		5,102	-	5,102	-
Derivative liabilities		549	361	549	361
Deferred income and accrued expenses		1,710	1,817	1,696	1,817
Deferred tax liability		1,049	1,074	1,049	1,074
Corporate income tax liability		586	1,022	586	1,022
Other liabilities		443	592	399	566
Subordinated debt	6	10,776	10,921	10,776	10,921
Total liabilities		675,648	545,855	676,226	546,401
Shareholders' equity					
Paid-in share capital	7	14,099	12,957	14,099	12,957
Share premium		4,752	1,882	4,752	1,882
Reserve capital and other reserves		891	891	891	891
Revaluation reserve		4,040	4,040	4,040	4,040
Retained earnings		8,009	5,079	8,093	5,071
Net income		2,887	5,750	3,015	5,842
Total shareholders' equity		34,678	30,599	34,890	30,683
Total liabilities and shareholders' equity		710,326	576,454	711,116	577,084

The accompanying notes on pages 13 to 18 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE PERIOD FROM 1 JANUARY 2007 TILL 30 JUNE 2007

Group EUR '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Minority interest	Total shareholders' equity and minority interest
Balance as at 31 December 2005	12,957	1,882	891	4,027	5,072	177	25,006
Adjustment in the result of minority interest elimination	-	-	-	-	7	(177)	(170)
Net profit for the period	-	-	-	-	2,207	-	2,207
Balance as at 30 June 2006	12,957	1,882	891	4,027	7,286	-	27,043
Balance as at 31 December 2006	12,957	1,882	891	4,040	10,829	-	30,599
Dividends paid	-	-	-	-	(2,820)	-	(2,820)
Issue of shares	1,142	2,870	-	-	-	-	4,012
Net profit for the period	-	-	-	-	2,887	-	2,887
Balance as at 30 June 2007	14,099	4,752	891	4,040	10,896	-	34,678

Bank EUR '000	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total shareholders' equity
Balance as at 31 December 2005	12,957	1,882	891	4,027	5,071	24,828
Net profit for the year	-	-	-	-	2,207	2,207
Balance as at 30 June 2006	12,957	1,882	891	4,027	7,278	27,035
Balance as at 31 December 2006	12,957	1,882	891	4,040	10,913	30,683
Dividends paid	-	-	-	-	(2,820)	(2,820)
Issue of shares	1,142	2,870	-	-	-	4,012
Net profit for the period	-	-	-	-	3,015	3,015
Balance as at 30 June 2007	14,099	4,752	891	4,040	11,108	34,890

The Bank paid dividends in amount of 0.28 EUR and 0.58 EUR per share for ordinary and preferred shares respectively. During the six month period ended 30 June 2007 the emission of new shares were finished. As the result additional 800,000 ordinary and 2,834 preferred shares were issued.

The accompanying notes on pages 13 to 18 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2007 TILL 30 JUNE 2007

EUR '000	Group 30.06.2007	Group 30.06.2006	Bank 30.06.2007	Bank 30.06.2006
Operating activities				
Result before corporate income tax	3,460	2,565	3,586	2,565
Depreciation and amortisation	1,299	1,218	1,292	1,215
Increase in provisions for liabilities and charges	(746)	410	(744)	411
Gain on revaluation of foreign currency	713	(63)	713	(63)
Gain on revaluation of investments	(135)	618	(135)	618
Loss / (gain) from disposal of fixed assets, net	13	50	24	50
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	4,604	4,798	4,736	4,796
(Decrease) in deferred income and accrued expenses	(107)	(700)	(121)	(700)
(Increase) in prepayments and accrued income	(28)	(75)	(27)	(80)
Net (increase)/ decrease in derivative instruments	(620)	277	(620)	277
Decrease in other assets	371	255	391	256
(Decrease) in other liabilities	(149)	(256)	(168)	(255)
(Decrease) in financial assets fair value though profit or loss	(18,378)	(2,143)	(18,378)	(2,306)
Increase in financial assets held to maturity	14,025	10,896	14,025	10,896
(Increase) in balances due from the central bank and credit institutions	(15,119)	(16,005)	(15,119)	(16,004)
(Increase) in loans and advances to non-banking customers	(68,149)	(11,790)	(68,319)	(11,790)
Increase in deposits from the public	85,903	54,459	85,967	54,798
Net increase in cash and cash equivalents from operating activities	2,353	39,716	2,367	39,888
Paid income tax	(835)	(801)	(834)	(801)
Net increase in cash and cash equivalents	1,518	38,915	1,533	39,087
Cash inflow/ outflow from investing activities				
(Purchase) of fixed and intangible assets	(8,006)	(1,030)	(7,870)	(1,023)
Proceeds from disposal of fixed and intangible assets	1	141	26	141
Investment in associate and subsidiary, net	-	(171)	(219)	(350)
Increase in cash and cash equivalents from investing activities	(8,005)	(1,060)	(8,063)	(1,232)
Cash inflow from financing activities				
Issue of shares	4,012	-	4,012	-
Issue of debt instrument	5,103	-	5,103	-
Dividends paid	(2,820)	-	(2,820)	-
Increase in cash and cash equivalents from financing activities	6,295	-	6,295	-
Net increase in cash and cash equivalents	(192)	37,855	(235)	37,855
Cash and cash equivalents at the beginning of the year	170,614	37,217	170,614	37,215
Profit/(loss) from revaluation of foreign currency positions	(858)	63	(858)	63
Cash and cash equivalents at the end of the year	169,564	75,135	169,521	75,133

The accompanying notes on pages 12 to 18 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2007 TILL 30 JUNE 2007

1. INCORPORATION AND PRINCIPAL ACTIVITIES

JSC Latvijas Krājbanka (hereinafter – the Bank) and its subsidiaries provides retail and corporate banking services. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements for the 6-month period ended 30 June 2007 have been prepared in accordance to the IAS 34 Interim Financial Statements.

The interim consolidated financial statements do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as of 31 December 2006.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

The accompanying consolidated financial statements are presented in thousands of EUR .

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed 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

This interim financial statement is prepared in accordance with IAS 34 about interim financial reporting.

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 31 December 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 (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall 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.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by European Union, but not earlier than 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.

AS LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2007 TILL 30 JUNE 2007

- IFRIC 12 Service Concession Agreements (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2008). 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.

The accompanying financial statements are reported in thousands of eiro (EUR 000's), based on exchange rate 0.702804 set by Bank of Latvia as at 30 June 2007.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank as at and for the period ended 30 June 2007 and 31 December 2006. The Bank has consolidated its subsidiaries as disclosed in Note 4. 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. 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.

AS LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2007 TILL 30 JUNE 2007

3. IMPAIRMENT LOSSES

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

EUR'000	Impairment losses for loan principal	Other impairment losses	Total
Impairment losses as at 31 December 2006	4,055	249	4,304
Impairment losses	1,244	-	1,244
Reversal of impairment losses	(549)	-	(549)
Recovery of assets previously written-off	(169)	-	(169)
Net charge to the statement of income	526	-	526
Foreign exchange movements	(3)	-	(3)
Net write-offs and recoveries of assets	142	(2)	140
Impairment losses as at 30 June 2007	4,720	247	4,967

4. INVESTMENT IN SUBSIDIARY

EUR'000	Business profile	Historical cost		Historical cost	
		30.06.2007	Share (%)	31.12.2005	Share (%)
AS "Ieguldījumu sabiedrība "Astra Krājfondi""	Investment fund management	514	100	514	100
Ieguldījumu pārvaldes sabiedrība "LKB Assets Management"	Investment fund management	170	100	170	100
SIA "LKB līzing"	Leasing	170	100	-	-
AS "Pirmais atklātais pensiju fonds"	Investment fund management	46	100	-	-
SIA "Krājinvestīcijas"	Real estate management	7	100	7	100
SIA "Baltic Property project"*	Real estate management	4	100	-	-
Total investment in associate		911	-	691	-

*The company is in registration process

5. BUSINESS ACQUISITION

In 30 June 2007 the Bank purchased 100% shares in AS "Pirmais atklātais pensiju fonds" for EUR 46 thousand and thus became the sole shareholder of this company. The fair value of the assets acquired equaled the purchase price therefore no goodwill was recognized on acquisition.

The fair value of assets, liabilities and off-balance sheet liabilities of AS IPirmais atklātais pensiju fonds at the acquisition date was as follows:

	Fair value at the acquisition date	Carrying value at the acquisition date
Balances due from credit institutions	43	43
Other assets	7	7
Total	50	50
Liabilities	1	1
Paid	46	46
Goodwill	3	3

The shares of the subsidiaries are not listed.

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6. SUBORDINATED DEBT

EUR'000	Bank/ Group 30.06.2007	Bank/ Group 31.12.2006
"Convers Group Management Company"	5,501	5,500
"Akademgrupp"	5,275	5,421
Total other liabilities	10,776	10,921

The debt due to the "Convers Group Management Company" terms includes an interest rate of 7% and a term of seven years, maturing on 8 November 2012. According to the agreement on subordinated debt with "Convers Group Management Company" dated on 8 November 2005, the borrower has the right to receive the invested funds at the end of the loan agreement or if the Bank is liquidated. The borrower has rights to apply for conversion of the subordinated capital into shares according to the Agreement and legislation. The share purchase price of 1.64 EUR per share is set in the Agreement for the conversion of the subordinated capital into shares.

According to the agreement on subordinated debt with Closed Joint-Stock Company "Akademgrupp" dated on 27 December 2006, the borrower has the right to receive the invested funds at the end of the loan agreement or if the Bank is liquidated. The debt terms include an interest rate of 8.6% and a term of seven years, maturing on 27 December 2013.

7. SHAREHOLDERS' EQUITY AND RESERVES

As at 30 June 2007, the Bank's registered and paid share capital was EUR 14,099 thousand (2006: 12,957 thousand). Share capital consists of:

Shares, thous.	30.06.2007	31.12.2006
Ordinary shares	9,906,412	9,106,412
Preferred shares	2,834	-
Total	9,909,246	9,106,412

Ordinary shares entitling to equal rights to dividends, liquidation quota and voting rights at the shareholders meeting. Nominal value per share is LVL 1.

Preferred shares entitle dividend in proportion of shares in share capital. Shares do not have voting rights and nominal value per share is 1 LVL.

All shares nominal value of LVL 1 are listed in the Free List of the Riga Stock Exchange. There is no limitation on expropriation of shares. Bank has not issued employee shares and there is no shareholder to whom the special control right is granted. No limitation is known that would restrict or limit the commitment of shareholder's of shares or voting rights.

The Bank's principal shareholders as at 30 June 2007 and 31 December 2006 were as follows:

EUR '000	30.06.2007		31.12.2006	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
JSC bank "Snoras"	10,704	75.92	9,717	75.00
AS "West Investment"	1,235	8.76	1,235	9.53
Geminy Investment Fund LTD	1,107	7.85	1,037	8.01
Other	1,053	7.47	968	7.46
Total	14,099	100	12,957	100

Changes in Bank's statutes can be made in shareholders meeting by ¾ voting right presented in the shareholder meeting.

Bank has not entered in any agreement that would come into power if there were change of control.

Management Board do not have shares of the Bank as at the end of the reporting period:

Bank reserves:

- The reserve was based on legislation that existed on period year 1993 – 2001 and mainly refers to privatization and the treatment of capital increase and distribution of profit. The last movement relates to share capital increase in 21 November 2000. As of the 30 June 2007 the Bank reserve amounted EUR 891 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 2005 the Bank has performed revaluation of all its property under "Land and Building". As the result the revaluation reserve was increased by EUR 3,482 thousand. Revaluation had been performed by certified, independent valuers. For recognition purposes the average value between two unrelated valuers' statements was used.

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8. CASH AND CASH EQUIVALENTS

EUR '000	Group 30.06.2007	Group 31.12.2006	Bank 30.06.2007	Bank 31.12.2006
Cash and deposits with the Bank of Latvia	37,242	99,116	37,242	99,116
Balances due from credit institutions	237,791	137,505	237,748	137,505
Balances due to credit institutions	(105,469)	(66,007)	(105,469)	(66,007)
Total cash and cash equivalents	169,564	170,614	169,521	170,614

Cash and cash equivalent amount is reduced by due to other credit institutions and the Bank of Latvia on demand and with the residual maturity less than 3 months, as stipulated in the Preparation Terms of Bank annual reports set by FCMC.

9. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Bank, members of the Council and 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.

EUR '000	Bank 30.06.2007	Bank 31.12.2006
Amounts receivable:		
Loans and advances to related parties:		
- Management	235	198
- Parent company	132	218
- Other related legal entities	1,517	14,451
- Other related private individuals	148	122
Total loans and advances to related parties	2,032	14,989
Amounts payable:		
Deposits and funds received:		
- Management	155	-
- Parent company	11,717	9,687
- Other related legal entities	6,568	858
- Other related private individuals	174	206
Total amounts payable	18,614	10,751
Credit commitments and contingencies to related legal entities		
- Management	1,507	666
- Other related legal entities	1,703	
- Other related private individuals	55	1,006
Total commitments and contingencies to related parties	3,265	1,672
Profit and loss items		
Interest income	145	196
<i>Inc. Interest income from parent company</i>	3	1
Interest expense	(114)	(67)
<i>Inc. Interest expense from parent company</i>	(98)	(57)
Commission income	54	41
<i>Inc. Interest expense from parent company</i>	54	40
Other income/ expense	(10)	4
Total profit or loss	75	174

All deposits from related parties are attracted on market terms and conditions. No impairment losses have been recognized in respect of loans given to related parties.

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10. COMMITMENTS AND CONTINGENCIES

Contingent liabilities and commitments, as well as client security account balances outstanding at the end of the year:

EUR '000	Group 30.06.2006	Group 31.12.2006	Bank 30.06.2006	Bank 31.12.2006
Contingent liabilities				
Outstanding guarantees	3,490	2,437	3,490	2,437
Irrevocable letters of credit	-	-	-	-
Total contingent liabilities	3,490	2,437	3,490	2,437
Financial commitments				
Credit commitments	28,792	20,539	30,494	20,539
Other commitments	211	34,535	211	34,535
Total financial commitments	29,003	55,074	30,705	55,074
Total contingent liabilities and financial commitments	32,493	57,511	34,195	57,511

11. SUBSEQUENT EVENTS

As at 17 July 2007 the Council made the decision about changes in the Management Board. For more detailed information see section Supervisory council and Management Board of the Bank

REGISTERED OFFICES

AS "Latvijas Krājbanka"

J.Daliņa 15
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Phone: (371) 6 7092 001
Facsimile: (371) 6 7092 000
Registration number: 40003098527

AS "Ieguldījumu sabiedrībā "Astra Krājfondi""

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Latvia
Phone: (371) 6 7221 970
Registration number: 40003605043

Ieguldījumu pārvaldes sabiedrība "LKB Assets Management"

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Facsimile: (371) 6 7221 971
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SIA "Krājinvestīcijas"

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Registration number 40003687374

SIA "LKB lizings"

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AS "Pirmais atklātais pensiju fonds"

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Latvia
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Facsimile: (371) 6 7362 383
Registration number: 40003377918