

AS Latvijas Krājbanka

Consolidated Report

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

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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 LVL 2 029 thousand after-tax, which is LVL 478 thousand or 31% more than in 2006. The total of the Group's assets on June 30th 2007 reached LVL 499.22 million, also indicated of having increased by LVL 94.09 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 LVL 60.37 million or 18.5% (from LVL 326.14 million up to LVL 386.51 million), but the growth of granted loans – LVL 47.90 million or 25% (from LVL 190.92 million up to LVL 238.81 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 Group enabled the increase of net interest income by LVL 2 342 thousand or 49.8% (compared to the 1st half of 2006) and the growth of net commission income by LVL 267 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 73 million LVL. The business-crediting portfolio amount reached 88 million LVL, 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.

STATEMENT OF THE MANAGEMENT

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 6.9 million LVL. 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.

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 2.8 million LVL.

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 96 000. 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 if 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 Imant 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.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

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 Pelcbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006
Svetlana Ovčiņņikova	Member of the Board	19/06/2006
Andrejs Surmačs	Member of the Board	28/10/2005
Ēvalds 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

Rīga,
31 August 2007

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

LVL '000	Group 30.06.2007	Group 30.06.2006	Bank 30.06.2007	Bank 30.06.2006
Interest income	13,291	7,518	13,320	7,516
Interest expense	(6,243)	(2,812)	(6,252)	(2,815)
Net interest income	7,048	4,706	7,068	4,701
Commission and fee income	3,498	3,030	3,453	3,014
Commission and fee expense	(912)	(711)	(909)	(709)
Net commission and fee income	2,586	2,319	2,544	2,305
Profit on sale of securities and foreign exchange trading	1,217	678	1,217	682
Other operating income	515	533	501	533
Operating income	11,366	8,236	11,330	8,221
Personnel expense	(4,251)	(3,219)	(4,177)	(3,213)
Depreciation and amortisation expense	(913)	(856)	(909)	(854)
Other operating expenses	(3,401)	(2,346)	(3,355)	(2,339)
Total operating expenses	(8,565)	(6,421)	(8,441)	(6,406)
Impairment losses	3 (874)	(564)	(874)	(564)
Reversal of impairment losses	505	552	505	552
Profit before corporate income tax	2,432	1,803	2,520	1,803
Corporate income tax	(403)	(252)	(401)	(252)
Profit for the reporting period	2,029	1,551	2,119	1,551
Basic earnings per share (in lats per share)	0.213	0.223	0.170	0.170
Diluted earnings per share (in lats per share)	0.170	0.137	0.177	0.137

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

LVL '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		26,174	69,659	26,174	69,659
Balances due from credit institutions and the central bank		180,701	99,594	180,671	99,594
Loans and advances to customers		238,814	190,919	239,074	191,059
Financial assets at fair value through profit or loss		31,156	17,577	31,156	17,577
Held-to-maturity investments		4,638	14,495	4,638	14,495
Investment in subsidiaries	4	-	-	640	486
Intangible assets		1,268	906	1,142	786
Fixed assets		14,731	10,389	14,590	10,359
Prepayments and accrued income		426	406	425	406
Other assets		1,312	1,189	1,265	1,156
Total assets		499,220	405,134	499,775	405,577
Liabilities					
Balances due to the central bank and credit institutions		74,124	46,390	74,124	46,390
Deposits from the customers		386,517	326,144	386,964	326,546
Issued debt instrument		3,586	-	3,586	-
Derivative liabilities		386	254	386	254
Deferred income and accrued expenses		1,202	1,277	1,192	1,277
Deferred tax liability		737	755	737	755
Corporate income tax liability		412	718	412	718
Other liabilities		311	416	280	398
Subordinated debt	6	7,573	7,675	7,573	7,675
Total liabilities		474,848	383,629	475,254	384,013
Shareholders' equity					
Paid-in share capital	7	9,909	9,106	9,909	9,106
Share premium		3,340	1,323	3,340	1,323
Reserve capital and other reserves		626	626	626	626
Revaluation reserve		2,839	2,839	2,839	2,839
Retained earnings		5,629	3,570	5,688	3,564
Net income		2,029	4,041	2,119	4,106
Total shareholders' equity		24,372	21,505	24,521	21,564
Total liabilities and shareholders' equity		499,220	405,134	499,775	405,577

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 LVL '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	9,106	1,323	626	2,830	3,565	125	17,575
Adjustment in the result of minority interest elimination	-	-	-	-	5	(125)	(120)
Net profit for the year	-	-	-	-	1,551	-	1,551
Balance as at 30 June 2006	9,106	1,323	626	2,830	5,121	-	19,006
Balance as at 31 December 2006	9,106	1,323	626	2,839	7,611	-	21,505
Dividends paid	-	-	-	-	(1,982)	-	(1,982)
Issue of shares	803	2,017	-	-	-	-	2,820
Net profit for the period	-	-	-	-	2,029	-	2,029
Balance as at 30 June 2007	9,909	3,340	626	2,839	7,658	-	24,372

Bank LVL '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	9,106	1,323	626	2,830	3,564	17,449
Net profit for the year	-	-	-	-	1,551	1,551
Balance as at 30 June 2006	9,106	1,323	626	2,830	5,115	19,000
Balance as at 31 December 2006	9,106	1,323	626	2,839	7,670	21,564
Dividends paid	-	-	-	-	(1,982)	(1,982)
Issue of shares	803	2,017	-	-	-	2,820
Net profit for the period	-	-	-	-	2,119	2,119
Balance as at 30 June 2007	9,909	3,340	626	2,839	7,807	24,521

The Bank paid dividends in amount of 0.20 LVL and 0.41 LVL 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

LVL '000	Group 30.06.2007	Group 30.06.2006	Bank 30.06.2007	Bank 30.06.2006
Operating activities				
Result before corporate income tax	2,432	1,803	2,520	1,803
Depreciation and amortisation	913	856	909	854
(Decrease)/ increase in provisions for liabilities and charges	(524)	288	(523)	289
Loss / (gain) on revaluation of foreign currency	501	(44)	501	(44)
(Gain)/ loss on revaluation of investments	(95)	434	(95)	434
Loss / (gain) from disposal of fixed assets, net	9	35	17	35
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	3,236	3,372	3,329	3,371
(Decrease) in deferred income and accrued expenses	(75)	(492)	(85)	(492)
(Increase) in prepayments and accrued income	(20)	(53)	(19)	(56)
Net (increase)/ decrease in derivative instruments	(436)	195	(436)	195
Decrease in other assets	261	179	275	180
(Decrease) in other liabilities	(105)	(180)	(118)	(179)
(Decrease) in financial assets fair value though profit or loss	(12,916)	(1,506)	(12,916)	(1,621)
Increase in financial assets held to maturity	9,857	7,658	9,857	7,658
(Increase) in balances due from the central bank and credit institutions	(10,626)	(11,248)	(10,626)	(11,248)
(Increase) in loans and advances to non-banking customers	(47,895)	(8,286)	(48,015)	(8,286)
Increase in deposits from the public	60,373	38,274	60,418	38,512
Net increase in cash and cash equivalents from operating activities	1,654	27,913	1,664	28,034
Paid income tax	(587)	(563)	(586)	(563)
Net increase in cash and cash equivalents	1,067	27,350	1,078	27,471
Cash inflow/ outflow from investing activities				
(Purchase) of fixed and intangible assets	(5,627)	(724)	(5,531)	(719)
Proceeds from disposal of fixed and intangible assets	1	99	18	99
Investment in associate and subsidiary, net	-	(120)	(154)	(246)
Increase in cash and cash equivalents from investing activities	(5,626)	(745)	(5,667)	(866)
Cash inflow from financing activities				
Issue of shares	2,820	-	2,820	-
Issue of debt instrument	3,586	-	3,586	-
Dividends paid	(1,982)	-	(1,982)	-
Increase in cash and cash equivalents from financing activities	4,424	-	4,424	-
Net increase/ (decrease) in cash and cash equivalents	(135)	26,605	(165)	26,605
Cash and cash equivalents at the beginning of the year	119,908	26,156	119,908	26,155
Profit/(loss) from revaluation of foreign currency positions	(603)	44	(603)	44
Cash and cash equivalents at the end of the year	119,170	52,805	119,140	52,804

The accompanying notes on pages 13 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.

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.
- 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.

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

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 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:

LVL'000	Impairment losses for loan principal	Other impairment losses	Total
Impairment losses as at 31 December 2006	2,850	175	3,025
Impairment losses	874	-	874
Reversal of impairment losses	(386)	-	(386)
Recovery of assets previously written-off	(119)	-	(119)
Net charge to the statement of income	369	-	369
Foreign exchange movements	(2)	-	(2)
Net write-offs and recoveries of assets	100	(1)	99
Impairment losses as at 30 June 2007	3,317	174	3,491

4. INVESTMENT IN SUBSIDIARY

LVL '000	Business profile	Historical cost 30.06.2007	Share (%)	Historical cost 31.12.2006	Share (%)
AS "Ieguldījumu sabiedrība "Astra Krājfondi""	Investment fund management	361	100	361	100
Ieguldījumu pārvaldes sabiedrība "LKB Assets Management"	Investment fund management	120	100	120	100
SIA "LKB līzings"	Leasing	120	100	-	-
AS "Pirmais atklātais pensiju fonds"	Investment fund management	32	100	-	-
SIA "Krājinvestīcijas"	Real estate management	5	100	5	100
SIA "Baltic Property project"*	Real estate management	2	100	-	-
Total investment in subsidiary		640	-	486	-

*The company is in registration process

5. BUSINESS COMBINATION

In 30 June 2007 the Bank purchased 100% shares in AS "Pirmais atklātais pensiju fonds" for LVL 32 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 Pirmais 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	30	30
Other assets	5	5
Total	35	35
Liabilities	1	1
Paid	32	32
Goodwill	2	2

The shares of the subsidiaries are not listed.

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6. SUBORDINATED DEBT

LVL '000	Bank/ Group 30.06.2007	Bank/ Group 31.12.2006
"Convers Group Management Company"	3,866	3,865
"Akademgrupp"	3,707	3,810
Total other liabilities	7,573	7,675

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 1.15 LVL 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 LVL 9,909 thousand (2006: 9,106 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 LVL 1.

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:

LVL '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"	7,523	75.92	6,829	75.00
AS "West Investment"	868	8.76	868	9.53
Geminy Investment Fund LTD	778	7.85	729	8.01
Other	740	7.47	680	7.46
Total	9,909	100	9,106	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 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 2005 the Bank has performed revaluation of all its property under "Land and Building". As the result the revaluation reserve was increased by LVL 2,447 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

LVL '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	26,174	69,659	26,174	69,659
Balances due from credit institutions	167,120	96,639	167,090	96,639
Balances due to credit institutions	(74,124)	(46,390)	(74,124)	(46,390)
Total cash and cash equivalents	119,170	119,908	119,140	119,908

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.

LVL '000	Bank 30.06.2007	Bank 31.12.2006
Amounts receivable:		
Loans and advances to related parties:		
- Management	165	139
- Parent company	93	153
- Other related legal entities	1,066	10,156
- Other related private individuals	104	86
Total loans and advances to related parties	1,428	10,534
Amounts payable:		
Deposits and funds received:		
- Management	109	-
- Parent company	8,235	6,808
- Other related legal entities	4,616	603
- Other related private individuals	122	145
Total amounts payable	13,082	7,556
Credit commitments and contingencies to related legal entities		
- Management	1,059	468
- Other related legal entities	1,197	-
- Other related private individuals	39	707
Total commitments and contingencies to related parties	2,295	1,175
Profit and loss items		
Interest income	102	138
<i>Inc. Interest income from parent company</i>	2	1
Interest expense	(80)	(47)
<i>Inc. Interest expense from parent company</i>	(69)	(40)
Commission income	38	29
<i>Inc. Interest expense from parent company</i>	38	28
Other income/ expense	(7)	3
Total profit or loss	53	123

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:

LVL '000	Group 30.06.2006	Group 31.12.2006	Bank 30.06.2006	Bank 31.12.2006
Contingent liabilities				
Outstanding guarantees	2,453	1,713	2,453	1,713
Irrevocable letters of credit	-	-	-	-
Total contingent liabilities	2,453	1,713	2,453	1,713
Financial commitments				
Credit commitments	20,235	14,435	21,431	14,435
Other commitments	148	24,271	148	24,271
Total financial commitments	20,383	38,706	21,579	38,706
Total contingent liabilities and financial commitments	22,836	40,419	24,032	40,419

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.

AS "Latvijas Krājbanka"

J.Daliņa 15
Rīga, LV-1013
Latvia
Phone: (371) 6 7092 001
Facsimile: (371) 6 7092 000
Registration number: 40003098527

AS "Ieguldījumu sabiedrībā "Astra Krājfondi""

J.Daliņa 15
Rīga, LV-1013
Latvia
Phone: (371) 6 7221 970
Registration number: 40003605043

Ieguldījumu pārvaldes sabiedrība "LKB Assets Management"

Jekaba street 2
Riga, LV- 1050
Latvia
Phone: (371) 6 7221 970
Facsimile: (371) 6 7221 971
Registration number 40003818124

SIA "Krājinvestīcijas"

Jekaba street 2
Riga, LV- 1050
Latvia
Phone: (371) 6 7221 970
Facsimile: (371) 6 7221 971
Registration number 40003687374

SIA "LKB līzings"

Jēkaba iela 2
Rīga, LV-1954
Latvia
Phone: (371) 6 7068 013
Facsimile: (371) 6 7092 880
Registration number: 40003887450

AS "Pirmais atklātais pensiju fonds"

Kr. Valdemāra 149-201
Rīga, LV-1013
Latvia
Phone: (371) 6 7389 652
Facsimile: (371) 6 7362 383
Registration number: 40003377918

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas Krājbanka

Report on the Financial Statements

We have audited the interim condensed consolidated financial statements of AS Latvijas Krājbanka and its subsidiaries (hereinafter – the Group) and the accompanying interim condensed financial statements of AS Latvijas Krājbanka (hereinafter - the Bank), which are set out on pages 9 through 18 and which comprise the balance sheet as at 30 June 2007, the statements of income, changes in equity and cash flows for the six month period ended 30 June 2007, and explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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


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

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

Opinion

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

SIA Ernst & Young Baltic
Licence No. 17



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

Rīga, 31 August 2007