

**AS "Latvijas Krājbanka"
Report
for 9 months of 2007**

(unaudited)

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Statement of the Management

In the first 9 months of 2007, *Latvijas Krājbanka* continues to strengthen its positions within the market and its financial indicators continue to grow. *Latvijas Krājbanka* is showing good results overall, as well as in specific sectors of the banking market.

Financial Data

On September 30th 2007 the non-audited profit of the enterprises owned by KLB reached LVL 3 316 thousand after-tax, which is LVL 256 thousand or 8.3% more than in 2006. The total of the Group's assets on September 30th 2007 reached LVL 559 million, also indicated of having increased by LVL 154 million or 38.0% when comparing to the total assets earlier in the year. In turn, the growth of the balance of deposits in the first 9 months of 2007 was LVL 119.5 million or 36.6% with a total balance of 446.0 million LVL. The growth of the balance of the loans granted for this time period was LVL 99.2 million or 51.9% which reached a total balance of LVL 290.2 million.

Overall, the speed of growth of KLB profit, assets and deposits in the first 9 months of 2007 exceeded the respective ratios of growth in the banking sector.

In the first 9 months of 2007 the profit growth of the enterprises owned by LKB enabled the increase of net interest income by LVL 3 359 thousand or 48.0% (compared to the 1st 9 months of 2006) and the growth of net commission income by LVL 512 thousand or 11.6%.

Since the beginning of 2007 the consumption loan portfolio grew by 56%, but the mortgage loan increase comprised 31%, the business-crediting portfolio increased by 61%, thus providing for the biggest increase in its sector.

Despite the aggressive competition existing in the sector of Latvian commercial banks, KLB retains stable market positions. Comparing to the situation on September 30th 2006, LKB market share of assets grew from 2.1% to 2.8%, the market share of deposits - from 3.5% to 4.9% and the market share based on loans - from 1.9% to 2.1%.

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 shareholders' meeting, held on October 25th, resolved to increase the stock capital of the JSC *Latvijas Krājbanka* by 2,24 million Ls in order to attract additional funds for the development of the JSC *Latvijas Krājbanka* activity and to introduce new products. The increase was achieved by emitting 2.24 million ordinary bearer shares with a nominal value of 1 LVL, a category of shareholders with the right to receive dividends, liquidation quota and a vote at the shareholders' meeting.

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.

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.

The JSC Latvijas Krājbanka, has carried out the largest multifunctional printing system installment at the corporative headquarter administrative building of the bank. 13 Hewlett Packard printers with added SafeCom program solution help to organize the safety and distribution of the company's documents and control the printing costs. The identification cards, used at the administrative building of Latvijas Krājbanka, are also used for access to the multifunctional printing system.

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". At the end of September, the total of the investment fund assets was 800 thousand LVL. The number of clients for the 2nd Pension Tier plans also managed by "Astra Krājfondi", at the end of September reached 53 515 thousand and their total assets to 8.2 million LVL.

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.).

Latvijas Krājbanka has expanded its investment strategy plans. In October, *Latvijas Krājbanka* started working with Raiffeisen Capital Management (RCM) - a subsidiary of the Austrian Raiffeisen Zentral Bank (RZB), which is one of the largest and most prominent banks in Central and Eastern Europe. RCM offers more than 20 different investment funds and will be able to meet the interests of even the most demanding investors.

January 2007, the public offer of the LKB newly emitted ordinary and preference shares ended successfully with all 800 000 ordinary shares and 2834 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.

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.

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.

September 30th 2007, *Latvijas Krājbanka* already had 102 Client Service Centers, 25 of which were minibanks. The bank has also developed 21 new ATM's, and by the end of the

term their number has grown to 167. The LKB continues expanding the bank's network throughout Latvia.

Public activities

The fact that *Latvijas Krājbanka* follows the newest advancements shows not only through the good financial indicators and the perfection of bank technologies but also through its successful social activities. The success was confirmed by a social study – *Latvijas Krājbanka* ranked in top positions in bank recognition, safety and other categories.

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.

Corporate evaluation experts from the financial company *Laika Stars* determined the TOP 100 of Latvia's most valuable enterprises. The *JSC Latvijas Krājbanka* ranked 23rd among the most valuable enterprises, and 8th among the most valuable banks in Latvia.

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. 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". 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 cooperation with *Vītolu Fund*, *Latvijas Krājbanka* founded a scholarship that will be awarded to students from different regions of Latvia. This year four students from the historical regions of Vidzeme, Zemgale, Kurzeme and Latgale will be the ones to receive this scholarship.

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.

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.

Raimondas Baranauskas
Chairman of the Council

Mārtiņš Bondars
Chairman of the Board / President

Rīga,

Supervisory Council and Management Board of the Bank

Supervisory Council as at 30 September 2007:

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

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

Management Board as at 30 September 2007:

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment/ Reappointment</i>
Mārtiņš Bondars	Chairman of the Board/ President	03/07/2006

Dzintars Pelcberts	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
Ilze Bagatska	Member of the Board	17/07/2007
Ivars Priedītis	Member of the Board	17/07/2007

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

Elected

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment</i>
Ēvalds Trukšans	Member of the Board	17/07/2007
Jānis Tukāns	Member of the Board	01/06/2007

Consolidated entities 30 September 2007

No.	Name of entity, Registration No.	Code of place of registration, registry address	Type of entity's activity*	Interest in share capital (%)	Interest in share capital (%)	Ground for inclusion in the group**
1.	Ieguldījumu pārvaldes sabiedrība "Astra Krājfondi", 40003605043	LV, Rīga, J.Daliņa iela 15	ISA	100	100	MS
2.	Ieguldījumu pārvaldes sabiedrība "LKB Asset Management", 40003818124	LV, Rīga, J.Daliņa iela 15	ISA	100	100	MS
3.	SIA "Krājinvestīcijas", 40003687374	LV, Rīga, Jēkaba iela 2	CKS	100	100	MS
4.	SIA "LKB līzings, 40003887450	LV, Rīga, Jēkaba iela 2	CFI	100	100	MS
5.	AS "Pirmais atklātais pensiju fonds" 40003377918	LV, Rīga, J.Daliņa iela 15	PFO	100	100	MS

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

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

Profit and loss statement

30 September 2007

LVL '000	Group 30.09.2007 (unaudited)	Group 30.09.2006 (unaudited)	Bank 30.09.2007 (unaudited)	Bank 30.09.2006 (unaudited)
Interest income	21 277	11 514	21 311	11 511
Interest expense	(10 921)	(4 517)	(10 936)	(4 523)
Net interest income	10 356	6 997	10 375	6 988
Commission and fee income	6 374	5 558	6 276	5 532
Commission and fee expense	(1 472)	(1 168)	(1 468)	(1 166)
Net commission and fee income	4 902	4 390	4 808	4 366
Profit on sale of securities and foreign exchange trading	1 997	1 519	1,997	1 523
Other operating income	838	824	798	824
Operating income	18 093	13 730	17 978	13 701
Personnel expense	(6 517)	(4 973)	(6 374)	(4 954)
Depreciation and amortisation expense	(1 396)	(1 319)	(1 393)	(1 316)
Other operating expenses	(5 539)	(3 653)	(5 443)	(3 650)
Total operating expenses	(13 452)	(9 945)	(13 210)	(9 920)
Impairment losses	(1 287)	(845)	(1 287)	(845)
Reversal of impairment losses	660	450	660	450
Profit before corporate income tax	4 014	3 390	4 141	3 386
Corporate income tax	(698)	(330)	(694)	(330)
Profit for the reporting period	3 316	3 060	3 447	3 056
Basic earnings per share (in lats per share)	0.343	0.336	0.357	0.336

Balance sheets

30 September 2007

LVL '000	Grupa 30.09.2007 (unaudited)	Grupa 31.12.2006 (audited)	Banka 30.09.2007 (unaudited)	Banka 31.12.2006 (audited)
Assets				
Cash and deposits with the central bank	48 851	69,659	48 851	69,659
Balances due from credit institutions and the central bank	164 438	99,594	164 414	99,594
Loans and advances to customers	289 821	190,919	290 227	191,059
Financial assets at fair value through profit or loss	24 217	17,577	24 217	17,577
Held-to-maturity investments	4 680	14,495	4 680	14,495
Investment in subsidiaries	-	-	640	486
Intangible assets	1 204	906	1 073	786
Fixed assets	15 446	10,389	15 182	10,359
Prepayments and accrued income	559	406	557	406
Other assets	9 827	1,189	9 712	1,156
Total assets	559 043	405,134	559 553	405,577
Liabilities				
Balances due to the central bank and credit institutions	66 429	46,390	66 429	46,390
Deposits from the customers	445 534	326,144	445 967	326,546
Issued debt instrument	3 546	-	3 546	-
Derivative liabilities	293	254	293	254
Deferred income and accrued expenses	1302	1,277	1292	1,277
Deferred tax liability	747	755	747	755
Corporate income tax liability	755	718	751	718
Other liabilities	5 728	416	5 629	398

Subordinated debt	9 050	7,675	9 050	7,675
Total liabilities	533 384	383,629	533 704	384,013

Shareholders' equity

Paid-in share capital	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	3 316	4,041	3 447	4,106
Total shareholders' equity	25 659	21,505	25 849	21,564
Total liabilities and shareholders' equity	559 043	405,134	559 553	405,577
Off-balance items				
Contingent liabilities	1 704	1 713	1 704	1 713
Commitments	23 019	38 706	23 729	38 706

Cash flow statement

LVL '000	Group 30.09.2007	Group 30.09.2006	Bank 30.09.2007	Bank 30.09.2006
Operating activities				
Result before corporate income tax	4 014	3390	4 141	3 386
Depreciation and amortisation	1 396	1282	1 393	1 279
(Decrease)/ increase in provisions for liabilities and charges	451	261	442	262
Loss / (gain) on revaluation of foreign currency	807	50	807	50
(Gain)/ loss on revaluation of investments	132	205	132	205
Loss / (gain) from disposal of fixed assets, net	9	(2)	30	(2)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	6 809	5 186	6 945	5 180
(Decrease) in deferred income and accrued expenses	(884)	3 245	(890)	3 245
(Increase) in prepayments and accrued income	(153)	(1 609)	(151)	(1 607)
Net (increase)/ decrease in derivative instruments	(253)	247	(253)	247
Decrease in other assets	(8 003)	(5 695)	(7 920)	(5 698)
(Decrease) in other liabilities	5 312	4 778	5 232	4 786
(Decrease) in financial assets fair value though profit or loss	(6 480)	4 461	(6 480)	4 185
Increase in financial assets held to maturity	9 815	-	9 815	-
(Increase) in balances due from the central bank and credit institutions	(5 157)	(59)	(5 157)	(59)
(Increase) in loans and advances to non-banking customers	(98 901)	(28 353)	(99 168)	(28 353)
Increase in deposits from the public	119	-	119	-
	390	51 613	421	51 885
Net increase in cash and cash equivalents from operating activities	21 495	33 814	21 394	33,811
Paid income tax	(846)	(734)	(842)	(734)
Net increase in cash and cash equivalents	20 649	33 080	20 552	33 077
Cash inflow/ outflow from investing activities				
(Purchase) of fixed and intangible assets	(7 772)	(1 487)	(7 524)	(1 483)
Proceeds from disposal of fixed and intangible assets	1 012	141	991	141
Investment in associate and subsidiary, net	-	(250)	(154)	(250)
Increase in cash and cash equivalents from investing activities	(6 760)	(1 596)	(6 687)	(1 592)
Cash inflow from financing activities				
Issue of shares	2,820	-	2,820	-
Issue of debt instrument	3 546	-	3 546	-
Issue of subordinated debt	1 375	-	1 375	-
Dividends paid	(1 982)	-	(1 982)	-
Increase in cash and cash equivalents from financing activities	5 759	-	5 759	-
Net increase/ (decrease) in cash and cash equivalents	19 648	31 484	19 624	31 485
Cash and cash equivalents at the beginning of the year	119 908	29 107	119 908	29 106
Profit/(loss) from revaluation of foreign currency positions	(807)	(50)	(807)	(50)
Cash and cash equivalents at the end of the year	138 749	60 541	138 725	60 541

Statement of changes in shareholder's equity

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)
Reversal of deferred tax from revaluation reserve	-	-	-	9	-	-	9
Net profit for the year	-	-	-	-	4,041	-	4,041
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	-	-	-	-	3,316	-	3,316
Balance as at 30 September 2007	9,909	3,340	626	2,839	8,945	-	25,659

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
Reversal of deferred tax from revaluation reserve	-	-	-	9	-	9
Net profit for the year	-	-	-	-	4,106	4,106
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	-	-	-	-	3,447	3,447
Balance as at 30 September 2007	9,909	3,340	626	2,839	9,135	25,849

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.

Operational results

30 September 2007

Name of the Item	Reporting period (unaudited)	Previous reporting year (audited, adjusted)
Return on equity (ROE) (%)	19,26	19,57
Return on assets (ROA) (%)	1,00	1,31

Shareholders and Equity

	Shares
AB "Banka SNORAS"	7 522 727
AS "West Investment"-	868 286
Gemini Investment Fund Ltd	778 229
Other	737 170
Total shares with voting rights	9 906 412
Shares without voting rights	2 834
Total	9 909 246

	% of total paid-in capital
AB "Banka SNORAS"	75.94 %
AS "West Investment"-	8.77 %
Gemini Investment Fund Ltd	7.85 %
Other	7.44 %
Total	100%

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

Summary of significant accounting policies

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

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

The Development Strategy Prospectives for the 2006-2008

Bank's mission

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

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

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

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

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

The general strategic perspectives of the Bank

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

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

- 8.1. Target markets,
 - 8.1.1. Latvia,
 - 8.1.2. Baltic states,
 - 8.1.3. EU and in collaboration with financial group also Russia (applying precaution policy and the best usage policy of imposed KYC and AML experience),
- 8.2. Target client,
 - 8.2.1. Latvian residents,
 - 8.2.1.1. individuals,
 - 8.2.1.2. legal entities,
 - 8.2.1.2.1. small and medium enterprises,
 - 8.2.1.2.2. using crediting possibilities of the financial group also big enterprises,
 - 8.2.1.3. Baltic and EU individuals and legal entities,
 - 8.2.1.4. Receiving extra compliance and analytical aid from the financial group – individuals and legal entities – residents of the financial group participant countries.
- 9. The Bank's network and sale channels:
 - 9.1. optimization of existing CSC network, using Minibank possibilities in less active places,
 - 9.2. the network expansion in Latvia, using the Minibank development project,
 - 9.3. EPS channel and tool development.
- 10. International development policy:
 - 10.1. according to the bank's business development demand,
 - 10.2. in collaboration with the financial group, implementing common development projects.
- 11. Development and maintenance of the bank's operational systems and information technologies:
 - 11.1. introduction of extra VIS tools,
 - 11.2. IT technology support for IT and operational risk management and minimization,
 - 11.3. EPS development.
- 12. Development and maintenance policy of tangibly technical infrastructure:
 - 12.1. real estate policy,
 - 12.1.1. real estate retaining as the Bank's or the financial group's property,
 - 12.1.2. optimization of property utilization (rent, hire),
 - 12.2. transfer assessment of financially capacious support functions to outsourcing.
- 13. The Bank's image development -
 - 13.1. The bank's brand update – the unified colour and visual language definition,
 - 13.2. The Bank's network division` visual image update,
 - 13.3. Participation in social life and charity (image development on the state and regional scale) -
 - 13.3.1. direct charity,
 - participation in events – acknowledgement of the Bank's social activity.

Risk management

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

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

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

Market risk

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

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

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

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

Up to necessity the Market risk is reduced by using derivatives

Derivatives

The financial instruments used by the Bank include forward and swap agreements whose value vary together with foreign currency exchange rate fluctuations and changes in interest rates. The risk in the transactions mentioned before is the possibility that the parties involved

in the transactions might refuse to fulfil their obligations, as well as the market risk that the agreement value will decrease as a result of unfavourable changes in interest rates.

Ratings

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

Fitch Ratings ratings

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

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

Influencing risk factors

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

Rating substantiation

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

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

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

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

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

The market risk is low.

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

Supporting possibilities

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

Development forecast and main influencing risk factors

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

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

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

Moody's Investors Service ratings

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

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

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

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

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

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

Standard&Poor's ratings

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

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

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

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

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

The additional information

For information purposes Financial statements are presented in EUR currency by rate of exchange 1 EUR=0,702804 LVL (30.09.2007 and 30.09.2006).

Profit and loss statement 30 September 2007

EUR '000	Group 30.09.2007 (unaudited)	Group 30.09.2006 (unaudited)	Bank 30.09.2007 (unaudited)	Bank 30.09.2006 (unaudited)
Interest income	30 274	16 383	30 323	16 379
Interest expense	(15 539)	(6 427)	(15 560)	(6 436)
Net interest income	14 735	9 956	14 763	9 943
Commission and fee income	9 069	7 908	8 930	7 871
Commission and fee expense	(2 094)	(1 662)	(2 089)	(1 659)
Net commission and fee income	6 975	6 246	6 841	6 212
Profit on sale of securities and foreign exchange trading	2 841	2 161	2 841	2 167
Other operating income	1 192	1 173	1 135	1 173
Operating income	25 743	19 536	25 580	19 495
Personnel expense	(9 273)	(7 076)	(9 069)	(7 049)
Depreciation and amortisation expense	(1 986)	(1 877)	(1 982)	(1 873)
Other operating expenses	(7 881)	(5 198)	(7 745)	(5 194)
Total operating expenses	(19 140)	(14 151)	(18 796)	(14 116)
Impairment losses	(1 831)	(1 202)	(1 831)	(1 202)
Reversal of impairment losses	939	640	939	640
Profit before corporate income tax	5 711	4 823	5 892	4 817
Corporate income tax	(993)	(469)	(987)	(469)
Profit for the reporting period	4 718	4 354	4 905	4 348
Basic earnings per share (in lats per share)	0.489	0.478	0.508	0.477

Balance sheets
30 September 2007

EUR '000	Grupa 30.09.2007 (unaudited)	Grupa 31.12.2006 (audited)	Banka 30.09.2007 (unaudited)	Banka 31.12.2006 (audited)
Assets				
Cash and deposits with the central bank	69 509	99,116	69 509	99,116
Balances due from credit institutions and the central bank	233 974	141,709	233 940	141,709
Loans and advances to customers	412 378	271,653	412 956	271,853
Financial assets at fair value through profit or loss	34 458	25,010	34 458	25,010
Held-to-maturity investments	6 659	20,625	6 659	20,625
Investment in subsidiaries	-	-	910	691
Intangible assets	1 713	1,289	1 527	1,118
Fixed assets	21 978	14,782	21 602	14,739
Prepayments and accrued income	795	578	792	578
Other assets	13 982	1,692	13 819	1,645
Total assets	795 446	576,454	796 172	577,084
Liabilities				
Balances due to the central bank and credit institutions	94 520	66,007	94 520	66,007
Deposits from the customers	633 937	464,061	634 554	464,633
Issued debt instrument	5 046	-	5 046	-
Derivative liabilities	417	361	417	361
Deferred income and accrued expenses	1 853	1,817	1 838	1,817
Deferred tax liability	1 063	1,074	1 063	1,074
Corporate income tax liability	1 074	1,022	1 068	1,022
Other liabilities	8 150	592	8 009	566
Subordinated debt	12 877	10,921	12 877	10,921
Total liabilities	758 937	545,855	759 392	546,401
Shareholders' equity				
Paid-in share capital	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	4 718	5,750	4 905	5,842
Total shareholders' equity	36 509	30,599	36 780	30,683
Total liabilities and shareholders' equity	795 446	576,454	796 172	577,084
Off-balance items				
Contingent liabilities	2 425	2 437	2 425	2 437

Cash flow statement

EUR '000	Group 30.09.2007	Group 30.09.2006	Bank 30.09.2007	Bank 30.09.2006
Operating activities				
Result before corporate income tax	5 711	4 824	5 892	4 818
Depreciation and amortisation	1 986	1 824	1 982	1 820
(Decrease)/ increase in provisions for liabilities and charges	642	371	629	372
Loss / (gain) on revaluation of foreign currency	1 148	71	1 148	71
(Gain)/ loss on revaluation of investments	188	292	188	292
Loss / (gain) from disposal of fixed assets, net	13	(3)	43	(3)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	9 688	7 379	9 882	7 370
(Decrease) in deferred income and accrued expenses	(1 258)	4 617	(1 266)	4 617
(Increase) in prepayments and accrued income	218	(2 289)	(215)	(2 286)
Net (increase)/ decrease in derivative instruments	(360)	351	(360)	351
Decrease in other assets	(11 387)	(8 103)	(11 269)	(8 108)
(Decrease) in other liabilities	7 558	6 799	7 444	6 810
(Decrease) in financial assets fair value though profit or loss	(9 220)	6 347	(9 220)	5 955
Increase in financial assets held to maturity	13 965	-	13 965	-
(Increase) in balances due from the central bank and credit institutions	(7 338)	(84)	(7 338)	(84)
(Increase) in loans and advances to non-banking customers	(140 723)	(40 343)	(141 103)	(40 343)
Increase in deposits from the public	169	73 439	169	73 826
Net increase in cash and cash equivalents from operating activities	30 584	48 113	30 441	48 108
Paid income tax	(1 204)	(1 044)	(1 198)	(1 044)
Net increase in cash and cash equivalents	29 380	47 069	29 243	47 064
Cash inflow/ outflow from investing activities				
(Purchase) of fixed and intangible assets	(11 059)	(2 116)	(10 706)	(2 110)
Proceeds from disposal of fixed and intangible assets	1 440	201	1 410	201
Investment in associate and subsidiary, net	-	(356)	(219)	(356)
Increase in cash and cash equivalents from investing activities	(9 619)	(2 271)	(9 515)	(2 265)
Cash inflow from financing activities				
Issue of shares	4 013	-	4 013	-
Issue of debt instrument	5 045	-	5 045	-
Issue of subordinated debt	1 956	-	1 956	-
Dividends paid	(2 820)	-	(2 820)	-

Increase in cash and cash equivalents from financing activities	8 194	-	8 194	-
Net increase/ (decrease) in cash and cash equivalents	27 955	44 798	27 922	44 799
Cash and cash equivalents at the beginning of the year	170 614	41 415	170 614	41 414
Profit/(loss) from revaluation of foreign currency positions	(1 148)	(71)	(1 148)	(71)
Cash and cash equivalents at the end of the year	197 421	86 142	197 388	86 142

Statement of changes in shareholder's

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)
Reversal of deferred tax from revaluation reserve	-	-	-	13	-	-	13
Net profit for the year	-	-	-	-	5,750	-	5,750
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	-	-	-	-	4,718	-	4,718
Balance as at 30 September 2007	14,099	4,752	891	4,040	12,727	-	36,509

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
Reversal of deferred tax from revaluation reserve	-	-	-	13	-	13
Net profit for the year	-	-	-	-	5,842	5,842
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	-	-	-	-	4,905	4,905
Balance as at						
30 September 2007	14,099	4,752	891	4,040	12,998	36,780

The Bank paid dividends in amount of 0.28 EUR and 0.58 EUR per share for ordinary and preferred shares respectively.

During the 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.

JSC "LATVIJAS KRĀJBANKA"
 Managerial Structure
 (valid from 09.10.2007.)

