

**AS "Latvijas Krājbanka"
Report
for 12 months of 2007**

(unaudited)

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Statement of the Management

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

Financial data

On 31 December 2007 the unaudited profit of Krājbanka Group accounted for LVL 4954 thousand after-tax, which is by LVL 913 thousand or 22.59% more than as of 31 December 2006. On 31 December 2007 the total amount of the Group's assets represented LVL 671 million marking the increase of LVL 266 million or 65.7% in comparison with the beginning of 2007. The main growth of the Group's resource base is due to non-Monetary Financial Institution deposits which increased by LVL 260 million or 79.7% reaching LVL 586 million over the 12 months of 2007. Such a significant growth of resources promoted the increase of the Bank's non-MFI credit balance by LVL 107 million or 55.9% that facilitated reaching the balance of LVL 298 million by the end of the accounting period. Moreover, the asset item of balances due from credit institutions experienced a significant growth accounting for the increase of LVL 175 million or 176.1% and by the end of the year reached the balance of LVL 275 million.

The Krājbanka Group's profit increase over the 12 months of 2007 was promoted by the net interest income growth of LVL 4292 thousand or 37.5% (compared to 12 months of 2006), net commission and fee income growth by LVL 823 thousand or 16.7% and increase of the profit on sale of securities and foreign exchange trading by LVL 1 523 thousand or 70 %.

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

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

Major achievements and decisions

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

In January 2007 year the public offer of the Bank's newly emitted ordinary and preference shares ended successfully with all 800 000 ordinary shares and 2834 preference shares being placed for the total amount of LVL 2.8 million.

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

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

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

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

Major news on Bank's products and services

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

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

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

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

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

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

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

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

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

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

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

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

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

Public activities

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

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

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

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

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

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

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

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

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

Supervisory Council and Management Board of the Bank

Supervisory Council as at 31 December 2007:

Supervisory Council

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

Based on the shareholder meeting decision dated 23.03.2007, the number of Council members go up from 5 to 7 and

Veronika Dojenko was not reappointed.

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

Management Board as at 31 December 2007:

Management Board

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

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

During the reporting period the following members of the Board receded

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

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

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

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

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

Consolidated entities 31 December 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.

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 statements on pages 10 to 25 are prepared in accordance with the source documents and present fairly the financial position of the Bank as of 31 December 2007, the results of its operations, changes in shareholders' equity and cash flows for the year then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by European Union on the going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgment and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Latvijas Krājbanka is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, the regulations of the Bank of Latvia, the instructions of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

Profit and loss statement 31 December 2007

LVL '000	Group 31.12.2007 (unaudited)	Group 31.12.2006 (audited)	Bank 31.12.2007 (unaudited)	Bank 31.12.2006 (audited)
Interest income	32,521	18,239	32,494	18,239
Interest expense	(16,772)	(6,782)	(16,794)	(6,790)
Net interest income	15,749	11,457	15,700	11,449
Commission and fee income	7,630	6,636	7,438	6,599
Commission and fee expense	(1,878)	(1,707)	(1,867)	(1,705)
Net commission and fee income	5,752	4,929	5,571	4,894
Dividend	-	-	8	6
Profit on sale of securities and foreign exchange trading	3,699	2,176	3,699	2,180
Other operating income	1,154	1,018	1,148	1,018
Operating income	26,354	19,580	26,126	19,547
Personnel expense	(9,473)	(7,268)	(9,231)	(7,233)
Depreciation and amortisation expense	(1,918)	(1,712)	(1,893)	(1,707)
Other operating expenses	(8,076)	(5,386)	(7,926)	(5,328)
Total operating expenses	(19,467)	(14,366)	(19,050)	(14,268)
Impairment losses	(1,780)	(1,186)	(1,780)	(1,186)
Reversal of impairment losses				
	766	667	766	667
Profit before corporate income tax				
	5,873	4,695	6,062	4,760

Corporate income tax	(919)	(654)	(912)	(654)
Profit for the reporting period	4,954	4,041	5,150	4,106
Basic earnings per share (in lats per share)	0.508	0.444	0.528	0.451

Balance sheets 31 December 2007

LVL '000	Grupa 31.12.2007 (unaudited)	Grupa 31.12.2006 (audited)	Banka 31.12.2007 (unaudited)	Banka 31.12.2006 (audited)
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Assets

Cash and deposits with the central bank	48,151	69,659	48,151	69,659
Balances due from credit institutions and the central bank	275,008	99,594	275,008	99,594
Loans and advances to customers	297,681	190,919	298,247	191,059
Financial assets at fair value through profit or loss	21,985	17,577	21,985	17,577
Held-to-maturity investments	4,747	14,495	4,747	14,495
Investment in subsidiaries	-	-	640	486
Intangible assets	1,200	906	1,067	786
Fixed assets	19,461	10,389	19,127	10,359
Prepayments and accrued income	648	406	626	406
Other assets	2,462	1,189	2,220	1,156
Total assets	671,343	405,134	671,818	405,577

Liabilities

Balances due to the central bank and credit institutions	26,668	46,390	26,668	46,390
Deposits from the customers	586,129	326,144	586,571	326,546
Issued debt instrument	456	254	456	254
Derivative liabilities	3,593	-	3,593	-
Deferred income and accrued expenses	1,815	1,277	1,767	1,277

Deferred tax liability	848	755	848	755
Corporate income tax liability	962	718	955	718
Other liabilities	949	416	782	398
Subordinated debt	8,913	7,675	8,913	7,675
Total liabilities	630,333	383,629	630,553	384,013

Shareholders' equity

Paid-in share capital	12,149	9,106	12,149	9,106
Share premium	12,300	1,323	12,300	1,323
Reserve capital and other reserves	626	626	626	626
Revaluation reserve	5,352	2,839	5,352	2,839
Retained earnings	5,629	3,570	5,688	3,564
Net income	4,954	4,041	5,150	4,106
Total shareholders' equity	41,010	21,505	41,265	21,564
Total liabilities and shareholders' equity	671,343	405,134	671,818	405,577
Off-balance items				
Contingent liabilities	28,267	1,713	28,267	1,713
Commitments	25,200	38,706	25,444	38,706

Cash flow statement

LVL '000	Group 31.12.2007 (unaudited)	Group 31.12.2006 (audited)	Bank 31.12.2007 (unaudited)	Bank 31.12.2006 (audited)
Cash flow from operating activities				
Profit before corporate income tax	5,873	4,695	6,062	4,760
Depreciation and amortisation expense	1,918	1,712	1,893	1,707
Increase in provisions for liabilities	-	30	-	30
Gain on revaluation of foreign currency	729	274	729	274
Gain on revaluation of investments	120	226	120	226
Minority interest	-	(5)	-	-
Loss from disposal of fixed assets, net	2	34	2	34
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	8,642	6,966	8,806	7,031
Increase in deferred income and accrued expenses	538	410	490	411
(Increase) in prepayments and accrued income	(242)	(64)	(220)	(64)
Net (increase)/ decrease in derivative instruments	(47)	128	(47)	128
(Increase) in other assets	(908)	(57)	(700)	(28)
Increase/ (decrease) in other liabilities	533	(286)	384	(183)
(Decrease) in financial assets at fair value through profit or loss	(4,237)	(1,719)	(4,237)	(1,865)
Increase in financial assets held to maturity	9,706	2,300	9,706	2,300
(Increase) in balances due from the central bank and credit institutions	(10,972)	(4)	(10,972)	(4)
(Increase) in loans and advances to non-banking customers	(106,762)	(38,672)	(107,188)	(38,812)
Increase in deposits from customers	259,985	124,815	260,025	125,120
Net increase in cash and cash equivalents from operating activities before income tax	156,236	93,817	156,047	94,034
Paid income tax	(1,081)	(901)	(1,081)	(900)
Net increase in cash and cash equivalents from operating activities	155,155	92,916	154,966	93,134
Cash inflow/ (outflow) from investing activities				
(Purchase) of fixed and intangible assets	(8,809)	(3,111)	(8,466)	(2,964)
Proceeds from disposal of fixed and intangible assets	170	409	170	300
Investment in associate and subsidiary,	-	-	(154)	(253)
(Decrease) in cash and cash equivalents from investing activities	(8,639)	(2,702)	(8,450)	(2,917)
Cash inflow/ (outflow) from financing activities				
Issue of shares	3,043	-	3,043	-
Issue of share premium	10,977	-	10,977	-
Issue of debt securities	3,593	-	3,593	-
Dividends paid	(1,982)	-	(1,982)	-
Proceeds from issue of subordinated debt	1,238	3,810	1,238	3,810
Increase in cash and cash equivalents from financing activities	16,869	3,810	16,869	3,810
Net increase in cash and cash equivalents	163,385	94,024	163,385	94,027
Cash and cash equivalents at the beginning of the year	119,908	26,158	119,908	26,155
Profit/(loss) from revaluation of foreign currency positions	(729)	(274)	(729)	(274)
Cash and cash equivalents at the end of the year	282,564	119,908	282,564	119,908

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)
Change in temporary deferred tax differences related to revaluation reserve during the reporting year	-	-	-	9	-	-	9
Profit for the year	-	-	-	-	4,041	-	4,041
Balance as at 31 December 2006(audited)	9,106	1,323	626	2,839	7,611	-	21,505
Dividends paid	-	-	-	-	(1,982)	-	(1,982)
Change in temporary deferred tax differences related to revaluation reserve during the reporting year	-	-	-	(136)	-	-	(136)
Revaluation charged	-	-	-	2,649	-	-	2,649
Issue of shares	3,043	10,977	-	-	-	-	14,020
Profit for the reporting year	-	-	-	-	4,954	-	4,954
Balance as at 31 December 2007(unaudited)	12,149	12,300	626	5,352	10,583	-	41,010

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
Profit for the reporting year	-	-	-	-	4,106	4,106
Balance as at 31 December 2006(audited)	9,106	1,323	626	2,839	7,670	21,564
Dividends paid	-	-	-	-	(1,982)	(1,982)
Reversal of deferred tax from revaluation reserve	-	-	-	(136)	-	(136)

Revaluation charged	-	-	-	2,649	-	2,649
Issue of shares	3,043	10,977	-	-	-	14,020
Profit for the reporting year	-	-	-	-	5,150	5,150
Balance as at 31 December 2007(unaudited)	12,149	12,300	626	5,352	10,838	41,265

Operational results

31 December 2007

Name of the Item	Reporting period (unaudited)	Previous reporting year (audited, adjusted)
Return on equity (ROE) (%)	20,11	19,57
Return on assets (ROA) (%)	1,05	1,31

Shareholders and Equity

	Shares
AB "Banka SNORAS"	9 223
AS "West Investment"- "Ratto Holdings Limited"	868
Other	1 213
Total shares with voting rights	12 149
<i>Inkl. shares without voting rights</i>	3

	% of total paid-in capital
AB "Banka SNORAS"	75.92 %
AS "West Investment"- "Ratto Holdings Limited"	7.15 %
Other	9.98 %
Total	100%

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

Summary of significant accounting policies

The interim consolidated financial statements for the 12-month period ended 31 December 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 2007 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 identification, supervision and management of its main financial risks. The Asset and Liabilities Committee perform supervision and management of this system. The following documents are established within the risk management system and approved by the Council:

- Risk management policy
- Investments policy
- Credit policy
- Information security policy
- Other documents, regulating risk management.

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 is managed within the Bank's risk management procedures.

The risk, which can arise in the case if the Bank's partners, with whom the Bank has concluded derivative and other financial instrument contracts, default on their obligations, is managed by applying the derivative financial instrument credit risk monitored by the procedure regulating those processes. To manage credit risk of derivative instruments the Bank deals with counterparties of good credit standing. The Bank's credit policy defines requirements for the credit risk collateral.

The Bank is subjected to the credit risk, mainly, in the result of credit activity. The credit risk amount is reflected in the asset balance value. The Bank is subjected to the credit risk also regarding other Bank's products, including derivative instruments and investments into debt securities. The amount, to which the Bank is subjected to the credit risk regarding those products, is reflected in their residual value balance. Hereto the Bank is subjected to the off-balance credit risks, which arise from the liability to issue additional credits and from the issued guarantees.

Bank manages the credit risk by setting the limits to the risk transaction amount for the Borrower, for the Group of borrowers, for the branch of national economy and for the country. The Credit policy determines the credit risk restrictive factors – types of collateral, defines the key principles for evaluation and adequacy of collateral, states the maximum period of use for the credit products, as well as the

procedure of loan granting, processing, and control. The Board approves the factors restricting credit risk at least once a year.

The Bank is mainly involved into loan granting to the clients residents – individuals, and to the small and medium enterprises.

Liquidity risk

The Bank maintains liquidity management with an aim to ensure the permanent resource availability for the timely fulfillment of all money flow liabilities. The Bank's liquidity policy is a part of the Risk management policy.

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

The funds are attracted using deposits, subordinated liabilities and stock capital. The Bank strives to maintain a balance between continuity and flexibility of funding, using payout periods of different liabilities. The Bank continuously evaluates liquidity risks by determining and controlling changes in funding, which are necessary to achieve the Bank's aims.

The Bank is also maintaining a liquid assets portfolio, which is a part of its liquidity risk management strategy.

Market risk

Market risk is a financial risk related to the future value of assets and liabilities of the Issuer, influenced by changes in interest rates, currency exchange rates and changes in commodity and share prices. The Issuer's activity can be threatened by changes in interest rates and currency exchange rates. In the result of such variations, the income both can increase and decrease. The limitations of variation impact are determined by the demand of "Foreign currency risk management policy" and "Interest rate risk management policy" defined in the Bank's Risk management policy and which are essential parts of it. The limits restricting those Risks are being revised on a regular basis.

The Bank's reliance on changes of interest rates is being controlled by the Investments department of the Bank on everyday basis, and also by the Risk Department on a regular basis, using analysis method of assets and liabilities reassessment term distortion (GAP), subjected to the changes of interest rates.

The Bank's Board determines basic rates for clients' credits and deposits, as well as defines the key principles by the development of the Bank's investment portfolio.

The Bank's "Foreign currency risk management policy" determines admissible amount of open positions for the separate currencies and the total open position for currency. The Investments department ensures the Bank's operation within the approved limits for the open currency positions, the Risk Department controls the observance of the limits stated in the policy

In the case of necessity the Bank's dependence from the Market risk is reduced with an aid of derivative financial instruments.

Operational risk

Operational risk is a possibility to incur loss due to the inadequate or incomplete internal process, human or system operation, or due to the impact of external conditions, including legal risk, but excluding strategic and reputation risk.

The Bank has developed the operational risk monitoring policy. In 2007 the system for the operational risk identification was introduced in the Bank.

The Risk department instigates events for risk limitation and diminishing.

Structural units, which are involved into processes, are responsible for implementation of direct events in order to identify, limit and reduce loss of the operational risk. The Risk department is responsible for the risk management coordination and systematization and analysis of the operational risk cases, submitted by the structural units, as well as for the report preparation about the operational risk level.

The report receivers ensure the information analysis in order to improve the Bank's Operational risk management practice and the management policy and procedures.

For calculation of the operational risk capital demand the Bank has chosen the Key figure approach.

Ratings

Three leading rating agencies *Fitch Ratings*, *Moody's Investors Services*, and *Standard&Poor's* has assigned ratings for Krājbanka

Rating assigned by Fitch Ratings

Rating agency *Fitch Ratings* assigned ratings to Krājbanka (approved on 18 September 2006 and revised on 12 June 2007):

- | | |
|--|--------|
| – 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

- | | |
|--|--------|
| – State rating on long-term liabilities in foreign currency | BBB+ |
| – State rating on long-term liabilities in national currency | A- |
| – Development forecast | Stable |

The rating agency *Fitch Ratings* has diminished credit rating for Latvia on 17 August 2007 for long-term liabilities in foreign currency from "A-" to "BBB+", maintaining the status of the country favourable for investments.

The credit rating for short-term liabilities in foreign currency remains of the F2 level, for the long-term liabilities in national currency – from "A" to "A-".

The above-mentioned information is published on the *Fitch Ratings* web site www.fitchratings.com.

Ratings assigned by Moody's Investors Service

Rating agency *Moody's Investors Service* assigned rating to Krājbanka (increased 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

The international rating agency *Moody's Investors Service* has increased the AS "Latvijas Krājbanka" credit ratings due to the introduction of new rating calculating methodology.

The ratings assigned to the "Latvijas Krājbanka" for the long-term deposits in foreign and national currencies are increased from Ba3 to Ba2.

Moody's points out that the new methodology (joint default analysis, JDA methodology) allows to assess financial stability of banks disregard of external support, which can be received from the proprietors.

The above-mentioned information is published on the *Moody's Investors Service* web site www.moodys.com

Ratings assigned by Standard&Poor's

Rating agency *Standard&Poor's* assigned ratings to Krājbanka (assigned on 13 March 2007):

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

The Bank's development forecast is evaluated as stable.

In its statement the rating agency has approvingly evaluated Latvijas Krājbanka's wide client service centre network, its recognizability, good resources base and liquidity, as well as innovative sale strategy of the bank's products and services, and improvements in the sphere of risk management.

In its statement the Standard & Poor's also noted, that Krājbanka has made several positive steps since change of the bank's management in 2005. The agency has also positively assessed the development strategy implemented by the bank's management.

The above-mentioned information is published on the Standard & Poor's web site www.standardandpoors.com

The additional information

For information purposes Financial statements are presented in EUR currency by rate of exchange 1 EUR=0,702804 LVL (31.12.2007 and 31.12.2006).

Profit and loss statement 31 December 2007

EUR '000	Group 31.12.2007 (unaudited)	Group 31.12.2006 (audited)	Bank 31.12.2007 (unaudited)	Bank 31.12.2006 (audited)
Interest income	46,273	25,952	46,235	25,952
Interest expense	(23,864)	(9,650)	(23,896)	(9,662)
Net interest income	22,409	16,302	22,339	16,290
Commission and fee income	10,857	9,442	10,583	9,390
Commission and fee expense	(2,672)	(2,429)	(2,656)	(2,426)
Net commission and fee income	8,185	7,013	7,927	6,964

Dividend	-	-	11	8
Profit on sale of securities and foreign exchange trading	5,263	3,096	5,263	3,102
Other operating income	1,642	1,449	1,634	1,449
Operating income	37,499	27,860	37,174	27,813
Personnel expense	(13,479)	(10,341)	(13,135)	(10,292)
Depreciation and amortisation expense	(2,729)	(2,436)	(2,693)	(2,429)
Other operating expenses	(11,491)	(7,664)	(11,278)	(7,581)
Total operating expenses	(27,699)	(20,441)	(27,106)	(20,302)
Impairment losses	(2,533)	(1,688)	(2,533)	(1,688)
Reversal of impairment losses	1,090	950	1,090	950
Profit before corporate income tax	8,357	6,681	8,625	6,773
Corporate income tax	(1,308)	(931)	(1,297)	(931)
Profit for the reporting period	7,049	5,750	7,328	5,842
Basic earnings per share (in lats per share)	0.723	0.631	0.752	0.642

Balance sheets 31 December 2007

EUR '000	Grupa 31.12.2007 (unaudited)	Grupa 31.12.2006 (audited)	Banka 31.12.2007 (unaudited)	Banka 31.12.2006 (audited)
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Assets

Cash and deposits with the central bank	68,513	99,116	68,513	99,116
Balances due from credit institutions and the central bank	391,301	141,709	391,301	141,709
Loans and advances to customers	423,562	271,653	424,367	271,853
Financial assets at fair value through profit or loss	31,282	25,010	31,282	25,010
Held-to-maturity investments	6,754	20,625	6,754	20,625
Investment in subsidiaries	-	-	911	691
Intangible assets	1,707	1,289	1,518	1,118

Fixed assets	27,691	14,782	27,215	14,739
Prepayments and accrued income	922	578	891	578
Other assets	3,503	1,692	3,159	1,645
Total assets	955,235	576,454	955,911	577,084

Liabilities

Balances due to the central bank and credit institutions	37,945		37,945	
		66,007		66,007
Deposits from the customers	833,986	464,061	834,615	464,633
Issued debt instrument	5,112	-	5,112	-
Derivative liabilities	649	361	649	361
Deferred income and accrued expenses	2,583	1,817	2,514	1,817
Deferred tax liability	1,207	1,074	1,207	1,074
Corporate income tax liability	1,369	1,022	1,359	1,022
Other liabilities	1,350	592	1,113	566
Subordinated debt	12,682	10,921	12,682	10,921
Total liabilities	896,883	545,855	897,196	546,401

Shareholders' equity

Paid-in share capital	17,287	12,957	17,287	12,957
Share premium	17,501	1,882	17,501	1,882
Reserve capital and other reserves	891	891	891	891
Revaluation reserve	7,615	4,040	7,615	4,040
Retained earnings	8,009	5,079	8,093	5,071
Net income	7,049	5,750	7,328	5,842
Total shareholders' equity	58,352	30,599	58,715	30,683
Total liabilities and shareholders' equity	955,235	576,454	955,911	577,084
Off-balance items				
Contingent liabilities	40,220	2,437	40,220	2,437
Commitments	35,856	55,074	36,204	55,074

Cash flow statement

EUR '000	Group	Group	Bank	Bank
	31.12.2007 (unaudited)	31.12.2006 (audited)	31.12.2007 (unaudited)	31.12.2006 (audited)
Cash flow from operating activities				
Profit before corporate income tax	8,357	6,681	8,625	6,773
Depreciation and amortisation expense	2,729	2,436	2,693	2,429
Increase in provisions for liabilities	-	43	-	43
Gain on revaluation of foreign currency	1,037	390	1,037	390
Gain on revaluation of investments	171	321	171	321
Minority interest	-	(7)	-	-
Loss from disposal of fixed assets, net		48		
	3		3	48

Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	12,297	9,912	12,529	10,004
Increase in deferred income and accrued expenses	765	583	697	585
(Increase) in prepayments and accrued income	(344)	(91)	(313)	(91)
Net (increase)/ decrease in derivative instruments	(67)	182	(67)	182
(Increase) in other assets	(1,292)	(81)	(996)	(40)
Increase/ (decrease) in other liabilities	758	(407)	546	(260)
(Decrease) in financial assets at fair value through profit or loss	(6,029)	(2,446)	(6,029)	(2,654)
Increase in financial assets held to maturity	13,810	3,273	13,810	3,273
(Increase) in balances due from the central bank and credit institutions	(15,612)	(6)	(15,612)	(6)
(Increase) in loans and advances to non-banking customers	(151,909)	(55,025)	(152,514)	(55,224)
Increase in deposits from customers	369,925	177,596	369,982	178,030
Net increase in cash and cash equivalents from operating activities before income tax	222,302	133,490	222,033	133,799
Paid income tax	(1,538)	(1,282)	(1,538)	(1,281)
Net increase in cash and cash equivalents from operating activities	220,764	132,208	220,495	132,518
Cash inflow/ (outflow) from investing activities				
(Purchase) of fixed and intangible assets	(12,534)	(4,427)	(12,046)	(4,217)
Proceeds from disposal of fixed and intangible assets	242	582	242	427
Investment in associate and subsidiary,	-	-	(219)	(360)
(Decrease) in cash and cash equivalents from investing activities	(12,292)	(3,845)	(12,023)	(4,150)
Cash inflow/ (outflow) from financing activities				
Issue of shares	4,330	-	4,330	-
Issue of share premium	15,619	-	15,619	-
Issue of debt securities	5,112	-	5,112	-
Dividends paid	1,762	5,421	1,762	5,421
Proceeds from issue of subordinated debt	(2,821)	-	(2,821)	-
Increase in cash and cash equivalents from financing activities	24,002	5,421	24,002	5,421
Net increase in cash and cash equivalents	232,474	133,784	232,474	133,789
Cash and cash equivalents at the beginning of the year	170,613	37,219	170,613	37,214
Profit/(loss) from revaluation of foreign currency positions	(1,037)	(390)	(1,037)	(390)
Cash and cash equivalents at the end of the year	402,050	170,613	402,050	170,613

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
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Balance as at 31 December 2005	12,957	1,882	891	4,026	5,073	177	25,006
Adjustment in the result of minority interest elimination	-	-	-	-	7	(177)	(170)
Change in temporary deferred tax differences related to revaluation reserve during the reporting year	-	-	-	13	-	-	13
Profit for the year	-	-	-	-	5,750	-	5,750
Balance as at 31 December 2006(audited)	12,957	1,882	891	4,039	10,830	-	30,599
Dividends paid	-	-	-	-	(2,821)	-	(2,821)
Change in temporary deferred tax differences related to revaluation reserve during the reporting year	4,330	15,619	-	-	-	-	19,949
Revaluation charged	-	-	-	(194)	-	-	(194)
Issue of shares	-	-	-	3,770	-	-	3,770
Profit for the reporting year	-	-	-	-	7,049	-	7,049
Balance as at 31 December 2007(unaudited)	17,287	17,501	891	7,615	15,058	-	58,352

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	4,026	5,072	24,828
Reversal of deferred tax from revaluation reserve	-	-	-	13	-	13
Profit for the reporting year	12,957	1,882	891	4,039	10,914	30,683
Balance as at 31 December 2006(audited)						
Dividends paid	-	-	-	-	(2,821)	(2,821)
Reversal of deferred tax from revaluation reserve	4,330	15,619	-	-	-	19,949
Revaluation charged	-	-	-	(194)	-	(194)
Issue of shares	-	-	-	3,770	-	3,770
Profit for the reporting year	-	-	-	-	7,328	7,328
Balance as at 31 December 2007(unaudited)	17,287	17,501	891	7,615	15,421	58,715

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

