

**A/S RIETUMU BANKA**  
**Interim**  
**Consolidated and Bank**  
**Financial Statements**  
**for the six month period**  
**ended 30 June 2006**

*A/S Rietumu banka*  
*Interim Consolidated and Bank Financial Statements*  
*for the six month period ended 30 June 2006*

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*A/S Rietumu banka*  
*Interim Consolidated and Bank Financial Statements*  
*for the six month period ended 30 June 2006*

## **Management Commentary**

### **Operating and financial review**

Over the six months of 2006 Rietumu Bank has continued to dynamically develop in line with its corporate strategy focusing on providing a wide array of financial services to corporate customers and affluent individuals.

First half of year 2006 was marked by a number of significant events.

Among the Bank's key priorities – constant development of new technologies both internal and external, primarily connected with providing banking services to our customers. Therefore, at the beginning of 2006 the Bank successfully launched new core system – EQUATION (from MISYS) featuring high flexibility and powerful functionality. All bank's operations are in a consolidated general ledger, maintaining comprehensive information management and reporting. Furthermore, for our customers convenience the Bank updated its Remote Banking solutions and Customer Service Call Centre.

Rietumu Bank continued the construction of a modern high-class business office Rietumu Capital Centre. A+++ graded business centre satisfies all the requirements due to its high functionality and most recent technical solutions. The building consists of three concrete and glass constructions of 19, 14 and 11 storey and its total floor area is 16500 m<sup>2</sup>. Part of the premises has already been leased out to large international companies. Over the first six months of 2006, 90 per cent of structural work was completed. In line with construction schedule, the business complex will be put into commission at the end of year 2007.

Rietumu Bank obtained a €60 million syndicated loan from European Bank of Reconstruction and Development (EBRD). Moreover, Rietumu Bank signed an agreement on obtaining a €110 million commercial syndicated loan. Among the banks extending the commercial syndication are more than 20 banks from Europe, US and other countries, whilst mandated lead arrangers are Raiffeisen Bank (Austria), HSH Nordbank (Denmark) and Dresdner Bank (Germany). Rietumu Bank intends to use the syndicated loans for further expanding its corporate lending activities in Latvia and beyond as well as for strengthening the Bank's positions in corporate lending on the rapidly growing markets of Russia and the CIS. The extension of the syndicated loans to Rietumu Bank shows a strong confidence from international financial organizations.

Strengthening the Bank's position on the rapidly growing markets of Russia is one of our key objectives. For this reason, we intend to acquire a bank in Russia. We see major opportunities for growth and profitability in this thriving market and we must now build on the platform, which we have already established there. Establishing a direct presence in Russia will allow us to offer a wider range of services and products to our customers as well as ensure high quality customer coverage. Currently the transaction is under successful negotiations that are likely to be concluded by the end of year 2006.

At the end of June 2006, important changes occurred in the Bank's top-management. Supervisory Council of Rietumu Bank accepted the resignation of Michael J. Bourke from the position of the President and the Chairman of the Executive Board of Rietumu Bank. Mr. Bourke is to continue his involvement with Rietumu as a Member of the Supervisory Council of the Bank. His new responsibilities include promoting cooperation with banks, investment funds and other financial institutions internationally as well as supervising the Bank's new representative office in Ireland and UK.

Former First Vice-president and Deputy Chairman of the Board Alexander Kalinovski - who has worked in Rietumu Bank for several years - was approved for the position of the President and Chairman of the Executive Board. While Mr. Rolf Fuls was approved as the First Vice-president and Member of the Board (previously Senior Vice-president and a Member of the Board). Apart from this, the number of Executive Board members was increased to five persons. The changes in the management structures of Rietumu Bank have evolutionary character; it means that the corporate strategy will remain with the same focus.

On pursuing our strategy we have determined our top priorities and we have the right to believe that Rietumu Bank is exceptionally well equipped to face the future.

## Financial results

	30 June 2006 (6 months)	31 December 2005	30 June 2005 (6 months)	31 December 2004	30 June 2004 (6 months)	31 December 2003
<b>At year end (Ls'000)</b>						
Total assets	762,712	704,197	716,375	603,209	535,810	477,024
Loans to non-banking customers	302,694	256,276	245,712	192,011	180,676	160,992
Due to customers	655,089	608,589	655,844	551,738	493,037	439,795
Total shareholders' equity	78,527	71,942	49,855	44,380	35,687	31,216
<b>For the period (Ls'000)</b>						
Net profit before tax	13,711	22,052	9,807	16,510	7,305	9,952
Net profit after tax	11,945	18,960	8,467	14,568	6,238	8,317
Operating income	25,138	42,978	19,166	31,919	14,829	23,814

## Ratios

### Capital adequacy

By Basle	14,40%	16,14%	11,84%	14,35%	11,06%	11,99%
By Financial & Capital Markets Commission	12,95%	13,99%	8,85%	14,11%	11,56%	12,42%

During the first 6 months of 2006, total assets grew from Ls 704 m to Ls 763 m which represents a growth of 8 %. Due to customers increased by 9 % from Ls 609 m on 31 December 2005 to Ls 655 m on 30 June 2006.

The Bank's Group net profit before tax for 6 months period ended 30 June 2006 was Ls 14 m (6 months ended 30 June 2005: Ls 10 m) representing an increase of Ls 4 m. Total shareholders equity increased from Ls 72 million on 31 December 2005 to Ls 79 million on 30 June 2006.

The Bank paid dividends for the years ended 2001, 2002, 2003, 2004 and 2005. The Bank's management expects to continue this dividend policy for the year ending 31 December 2006. It is the objective of the management that dividend growth for shareholders is achieved, provided that the Bank complies with all regulatory norms.

We are looking forward to the second half of 2006 and beyond and we firmly believe that we will continue to offer the best corporate service of any bank in the Baltic States. We owe our success to our customers and business partners and we would like to express our appreciation to our customers and business partners for the trust that they have placed in us.

24 August 2006

Leonid Esterkin  
Chairman of the Council

Alexander Kalinovsky  
Chairman of the Board of Directors

*A/S Rietumu banka*  
**Interim Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2006*

**Auditor's Report**



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**Auditors' Report**

**To the shareholders of A/S Rietumu Banka**

We have audited the accompanying unconsolidated interim balance sheet of A/S Rietumu Banka (the Bank) as of 30 June 2006 and the related unconsolidated interim statements of income, changes in shareholder's equity and cash flows for the six months period then ended as set out on pages 6 to 16 (the unconsolidated interim financial information). We have also audited the accompanying consolidated interim balance sheet of A/S Rietumu Banka and subsidiaries (the Group) as of 30 June 2006 and the related consolidated interim statements of income, changes in equity and cash flows for the six months period then ended as set out on pages 6 to 16 (the consolidated interim financial information). This unconsolidated and consolidated interim financial information is the responsibility of the Bank's management. Our responsibility is to issue a report on this unconsolidated and consolidated interim financial information based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the unconsolidated and consolidated interim financial information are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the unconsolidated and consolidated interim financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall unconsolidated and consolidated interim financial information presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the interim unconsolidated financial information is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

In our opinion, the interim consolidated financial information is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Patrick Querubin  
KPMG Baltics SIA  
Licence No 55  
Riga, Latvia  
24 August 2006

Inga Lipšane  
Sworn Auditor  
Certificate No. 112

*A/S Rietumu banka*  
*Interim Consolidated and Bank Financial Statements*  
*for the six month period ended 30 June 2006*

*Interim Statement of Income for the six-month period ended 30 June 2006*

	Notes	Six months ended 30 June			
		2006		2005	
		Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
Interest income	4	18,465	18,141	13,225	12,582
Interest expense	5	(4,518)	(4,612)	(2,462)	(2,338)
<b>Net interest income</b>		<b>13,947</b>	<b>13,529</b>	<b>10,763</b>	<b>10,244</b>
Commission and fee income	6	7,052	6,766	6,116	5,293
Commission and fee expense	7	(1,130)	(1,079)	(720)	(692)
<b>Net commission and fee income</b>		<b>5,922</b>	<b>5,687</b>	<b>5,396</b>	<b>4,601</b>
Net gains/loss from trading assets and liabilities		906	484	(30)	(290)
Profit/loss on foreign currency trading and revaluation		3,887	3,858	2,208	1,451
Dividends received		19	627	13	6,601
Other income		457	360	816	479
<b>Operating income</b>		<b>25,138</b>	<b>24,545</b>	<b>19,166</b>	<b>23,086</b>
Other expense		(288)	(18)	(780)	(41)
Administrative expense		(9,886)	(9,431)	(7,398)	(7,111)
Amortisation and depreciation charge		(1,171)	(1,137)	(955)	(940)
Impairment loss	8	(172)	(172)	(582)	(582)
Release of previously established allowance	8	90	90	356	356
<b>Profit before income tax</b>		<b>13,711</b>	<b>13,877</b>	<b>9,807</b>	<b>14,768</b>
Corporate income tax		(1,766)	(1,743)	(1,340)	(1,293)
<b>Net profit for the period</b>		<b>11,945</b>	<b>12,134</b>	<b>8,467</b>	<b>13,475</b>
Basic and diluted earnings per share		<b>0.52</b>	<b>0.54</b>	<b>0.41</b>	<b>0.65</b>

The interim consolidated and Bank's financial statements on pages 6 to 16 have been authorized by the Bank's management on 24 August 2006 and signed on its behalf by:

Leonid Esterkin  
Chairman of the Council

Alexander Kalinovsky  
Chairman of the Board of Directors

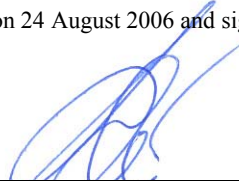
*The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.*


*A/S Rietumu banka*  
**Interim Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2006*

*Interim Balance Sheet and Memorandum Items as at 30 June 2006*

	Notes	30/06/06		31/12/05	
		Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
<b>Assets</b>					
Cash and demand balances due from the Central Bank		56,732	56,697	52,080	52,056
Demand balances due from credit institutions		147,703	147,237	231,545	230,946
Financial assets held for trading	9	34,842	34,842	1,847	1,759
-bonds and other fixed income securities		33,939	33,939	466	378
-shares and other non-fixed income securities		903	903	1,381	1,381
Financial assets available-for-sale	10	1,999	749	1,641	794
-bonds and other fixed income securities		640	562	595	595
-shares and other non-fixed income securities		1,359	187	1,046	199
Loans to non-banking customers	11	302,694	298,188	256,276	248,313
Held-to-maturity investments	12	190,987	190,987	135,756	135,756
Derivative financial instruments		789	789	836	836
Accrued income and deferred expenses		3,097	2,778	1,902	1,836
Fixed assets		16,262	16,085	14,947	14,773
Intangible assets		3,853	3,851	4,198	4,198
Investments in subsidiaries and other related entities	13	-	11,213	146	11,411
Other assets		3,754	1,756	3,023	1,147
<b>Total assets</b>		<b>762,712</b>	<b>765,172</b>	<b>704,197</b>	<b>703,825</b>
<b>Liabilities</b>					
Demand balances due to the central bank and other credit institutions		18,992	19,104	14,675	14,675
Derivative financial instruments		-	-	110	110
Financial liabilities at amortised cost - deposits		655,089	659,286	608,589	611,511
Deferred income and accrued expenses		4,542	4,147	3,510	2,912
Tax liabilities		1,794	1,794	1,765	1,762
Other liabilities		3,768	2,199	3,606	1,284
<b>Total liabilities</b>		<b>684,185</b>	<b>686,530</b>	<b>632,255</b>	<b>632,254</b>
<b>Shareholders' equity</b>					
Paid-in share capital		22,500	22,500	22,500	22,500
Legal and other reserves		16	16	16	16
Share premium		4,809	4,809	4,809	4,809
Revaluation reserve		5,506	4,739	5,803	4,739
Current year profit		11,945	12,134	18,960	25,488
Retained earnings		33,751	34,444	19,854	14,019
<b>Total shareholders' equity</b>		<b>78,527</b>	<b>78,642</b>	<b>71,942</b>	<b>71,571</b>
<b>Total liabilities and shareholders' equity</b>		<b>762,712</b>	<b>765,172</b>	<b>704,197</b>	<b>703,825</b>
<b>Memorandum items</b>					
Contingent liabilities (guarantees)		12,493	12,493	6,955	6,955
Letters of credit		18,858	18,858	6,741	6,741
Financial commitments (unutilized credit lines)		49,808	51,570	63,121	89,688

The interim consolidated and Bank's financial statements on pages 6 to 16 have been authorized by the Bank's management on 24 August 2006 and signed on its behalf by:

  
 Leonid Esterkin  
 Chairman of the Council

  
 Alexander Kalinovsky  
 Chairman of the Board of Directors

*The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.*

*A/S Rietumu banka*  
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*Interim Statement of Changes in Shareholders' Equity for the six-month period ended 30 June 2006*  
**GROUP**

	Paid-in share capital Ls '000	Share premium Ls'000	Legal and other reserves Ls '000	Currency translation reserve Ls '000	Revaluation reserve – property, net of taxes Ls '000	Revaluation reserve – available- for-sale investments, net of taxes Ls '000	Retained earnings Ls '000	Total shareholders' equity Ls '000
<b>Balance at 31 December 2004</b>	<b>20,757</b>	<b>151</b>	<b>16</b>	<b>-</b>	<b>636</b>	<b>(23)</b>	<b>22,843</b>	<b>44,380</b>
Dividends paid on ordinary shares	-	-	-	-	-	-	(2,989)	(2,989)
Revaluation of available-for-sale investments	-	-	-	-	-	(3)	-	(3)
Net profit for the period	-	-	-	-	-	-	8,467	8,467
<b>Balance at 30 June 2005</b>	<b>20,757</b>	<b>151</b>	<b>16</b>	<b>-</b>	<b>636</b>	<b>(26)</b>	<b>28,321</b>	<b>49,855</b>
Net profit for the period	-	-	-	-	-	-	10,493	10,493
Revaluation reserve	-	-	-	1,064	-	-	-	1,064
Revaluation of property	-	-	-	-	4,103	-	-	4,103
Revaluation of available- for-sale investments	-	-	-	-	-	26	-	26
Share issue	1,743	4,658	-	-	-	-	-	6,401
<b>Balance at 31 December 2005</b>	<b>22,500</b>	<b>4,809</b>	<b>16</b>	<b>1,064</b>	<b>4,739</b>	<b>-</b>	<b>38,814</b>	<b>71,942</b>
Net profit for the period	-	-	-	-	-	-	11,945	11,945
Dividends paid on ordinary shares	-	-	-	-	-	-	(5,063)	(5,063)
Revaluation reserve	-	-	-	(297)	-	-	-	(297)
<b>Balance at 30 June 2006</b>	<b>22,500</b>	<b>4,809</b>	<b>16</b>	<b>767</b>	<b>4,739</b>	<b>-</b>	<b>45,696</b>	<b>78,527</b>

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*A/S Rietumu banka*  
*Interim Consolidated and Bank Financial Statements*  
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*Interim Statement of Changes in Shareholders' Equity for the six-month period ended 30 June 2006*  
**BANK**

	Paid-in share capital Ls '000	Share premium Ls'000	Legal and other reserves Ls '000	Revaluation reserve – property, net of taxes Ls '000	Revaluation reserve – available- for-sale investments, net of taxes Ls '000	Retained earnings Ls '000	Total shareholders' equity Ls '000
<b>Balance at 31 December 2004 as reported</b>	20,757	151	16	636	(23)	22,856	44,393
Restatement due to change in accounting policy	-	-	-	-	-	(5,848)	(5,848)
<b>Balance at 31 December 2004 as restated</b>	20,757	151	16	636	(23)	17,008	38,545
Dividends paid on ordinary shares	-	-	-	-	-	(2,989)	(2,989)
Revaluation of available-for-sale investments	-	-	-	-	(3)	-	(3)
Net profit for the period	-	-	-	-	-	13,475	13,475
<b>Balance at 30 June 2005</b>	20,757	151	16	636	(26)	27,494	49,028
Net profit for the period	-	-	-	-	-	12,013	12,013
Revaluation of property	-	-	-	4,103	-	-	4,103
Revaluation of available-for-sale investments	-	-	-	-	26	-	26
Share issue	1,743	4,658	-	-	-	-	6,401
<b>Balance at 31 December 2005</b>	22,500	4,809	16	4,739	-	39,507	71,571
Net profit for the period	-	-	-	-	-	12,134	12,134
Dividends paid on ordinary shares	-	-	-	-	-	(5,063)	(5,063)
<b>Balance at 30 June 2006</b>	22,500	4,809	16	4,739	-	46,578	78,642

*The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.*

*A/S Rietumu banka*  
*Interim Consolidated and Bank Financial Statements*  
*for the six month period ended 30 June 2006*

*Interim Statement of Cash Flow for the six-month period ended 30 June 2006*

	Six months ended 30 June			
	2006		2005	
	Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
<b>Cash inflow/ (outflow) from operating activities</b>				
Profit before income tax	13,711	13,877	9,807	14,768
Amortisation and depreciation	1,171	1,137	955	940
Impairment loss	172	172	420	420
(Profit)/loss from sales of fixed and intangible assets	(129)	20	-	-
(Profit) from foreign exchange fluctuations	(297)	-	-	(131)
(Profit)/loss from revaluation of investments in subsidiaries	(169)	-	10	(6,588)
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>	<b>14,459</b>	<b>15,206</b>	<b>11,192</b>	<b>9,409</b>
(Increase)/decrease in accrued income and deferred expenses	(1,195)	(942)	128	131
(Increase)/decrease in other assets	(731)	(609)	114	124
(Increase) in derivative financial instruments	(63)	(63)	(121)	(121)
Decrease in deferred income and accrued expense	1,012	1,218	514	677
Increase/(decrease) in other liabilities	(1,518)	(765)	45	(36)
(Increase) in investments in trading and AFS securities	(33,353)	(33,038)	(23,549)	(23,048)
(Increase) in balances due from credit institutions	-	-	(180)	(181)
Decrease in held-to-maturity investments	(55,231)	(55,231)	-	-
(Increase) in loans and advances to customers	(46,590)	(50,047)	(53,949)	(50,375)
Increase in deposits due to customers	46,500	47,775	104,106	102,615
<b>Increase / (decrease) in cash equivalents from operating activities before corporate income tax</b>	<b>(76,710)</b>	<b>(76,496)</b>	<b>38,300</b>	<b>39,195</b>
Corporate income tax paid	(1,717)	(1,694)	(1,516)	(1,491)
<b>Net cash and cash equivalents from operating activities</b>	<b>(78,427)</b>	<b>(78,190)</b>	<b>36,784</b>	<b>37,704</b>
<b>Cash inflow/ (outflow) from investing activities</b>				
Purchase of property, equipment and intangible assets	(2,240)	(2,240)	(1,144)	(971)
Acquisition of subsidiaries	-	(48)	-	(1,000)
Sale of investment in subsidiaries	315	246	-	-
Purchase of shares and HTM securities	-	-	(11,787)	(11,787)
Proceeds from sale of property and equipment	228	118	309	186
<b>Decrease in cash and cash equivalents from investing activities</b>	<b>(1,697)</b>	<b>(1,924)</b>	<b>(12,622)</b>	<b>(13,572)</b>
<b>Cash inflow/ (outflow) from financing activities</b>				
Dividends paid	(3,383)	(3,383)	(2,989)	(2,989)
<b>Decrease in cash and cash equivalents from financing activities</b>	<b>(3,383)</b>	<b>(3,383)</b>	<b>(2,989)</b>	<b>(2,989)</b>
<b>Net cash inflow/ (outflow) for the period</b>	<b>(83,507)</b>	<b>(83,497)</b>	<b>21,173</b>	<b>21,143</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>268,950</b>	<b>268,327</b>	<b>245,882</b>	<b>245,475</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>185,443</b>	<b>184,830</b>	<b>267,055</b>	<b>266,618</b>

*The accompanying notes on pages 11 to 16 are an integral part of these interim financial statements.*

*A/S Rietumu banka*  
**Interim Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2006*

**Notes**

**Note 1 Incorporation and principal activities**

The Parent of the Group – A/S Rietumu Banka was established on 13 May 1992 and incorporated in the Republic of Latvia as a joint stock company, in which the shareholders have limited liability. The Group’s main areas of operation include granting loans, transferring payments, exchanging foreign currencies and securities brokerage.

**Note 2 Accounting policies**

These consolidated and Bank’s interim financial statements of A/S Rietumu Banka (“the Bank”) and subsidiaries (“the Group”) are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim consolidated and Bank financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005. However, the Bank and the Group for the first time implemented new Regulations (dated February 24, 2006) on preparation of financial statements issued by Financial and Capital Market Commission. As a result such balance sheet items as due from and due to credit institutions and loans and deposits were reclassified, respectively.

These interim financial statements do not include all of the information required for the complete set of annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2005.

**Note 3 Estimates**

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2005.

**Note 4 Interest income**

Interest income is comprised of the following:

	<b>Six months ended 30 June 2006</b>		<b>Six months ended 30 June 2005</b>	
	<b>Group Ls’000</b>	<b>Bank Ls’000</b>	<b>Group Ls’000</b>	<b>Bank Ls’000</b>
On loans granted to customers	10,392	10,068	7,230	6,587
On balances due from credit institutions	6,350	6,350	3,984	3,984
On debt securities	1,723	1,723	2,011	2,011
<b>Total</b>	<b>18,465</b>	<b>18,141</b>	<b>13,225</b>	<b>12,582</b>

**Note 5 Interest expense**

Interest expense is comprised of the following:

	<b>Six months ended 30 June 2006</b>		<b>Six months ended 30 June 2005</b>	
	<b>Group Ls’000</b>	<b>Bank Ls’000</b>	<b>Group Ls’000</b>	<b>Bank Ls’000</b>
On deposits from the public	3,238	3,332	1,622	1,498
On balances due to credit institutions	621	621	251	251
Other	659	659	589	589
<b>Total</b>	<b>4,518</b>	<b>4,612</b>	<b>2,462</b>	<b>2,338</b>

*A/S Rietumu banka*  
**Interim Consolidated and Bank Financial Statements**  
**for the six month period ended 30 June 2006**

**Note 6 Commission and fee income**

Commission and fee income is comprised of the following:

	Six months ended 30 June 2006		Six months ended 30 June 2005	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Money transfers	3,565	3,565	3,002	3,002
Commission income from payment cards	1,260	1,260	868	868
Commission income from loans	961	961	476	476
Revenue from customer asset management and brokerage commissions	494	206	879	57
Commission from documentary operations	183	183	157	157
Cash withdrawals	178	178	182	182
Commission from guarantees	157	157	28	28
Commission income from account servicing	128	128	391	391
Other	126	128	133	132
<b>Total</b>	<b>7,052</b>	<b>6,766</b>	<b>6,116</b>	<b>5,293</b>

**Note 7 Commission and fee expense**

Commission and fee expense is comprised of the following:

	Six months ended 30 June 2006		Six months ended 30 June 2005	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Credit card expenses	435	435	290	290
Banks	338	338	349	349
Brokerage commission	19	15	52	23
Cash withdrawals	6	6	8	8
Other commission	332	285	21	22
<b>Total</b>	<b>1,130</b>	<b>1,079</b>	<b>720</b>	<b>692</b>

**Note 8 Impairment allowances for losses**

	Loans Ls '000	Investments Ls '000	Accrued income Ls'000	Other Ls '000	Total Ls '000
<b>Allowance for impairment losses as at 31 December 2005</b>	<b>1,109</b>	<b>1,516</b>	<b>73</b>	<b>11</b>	<b>2,709</b>
Reversal of impairment losses	(90)	-	-	-	(90)
Net impairment losses	172	-	-	-	172
Written off assets	(178)	-	-	-	(178)
Currency revaluation	(15)	(84)	(3)	-	(102)
<b>Allowance as at 30 June 2006</b>	<b>998</b>	<b>1,432</b>	<b>70</b>	<b>11</b>	<b>2,511</b>

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**Note 9 Financial assets held for trading**

Securities held for trading:

	<b>30/06/06</b>	<b>30/06/06</b>	<b>31/12/05</b>	<b>31/12/05</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
USA government bonds	33,557	33,557	-	-
Shares listed on the Riga stock exchange	661	661	662	662
Russian corporate bonds	356	356	378	378
Shares listed on the Moscow stock exchange	242	242	719	719
Eurobond fund	26	26	-	-
Brazilian government bonds	-	-	79	-
Ukrainian government bonds	-	-	9	-
<b>Total</b>	<b><u>34,842</u></b>	<b><u>34,842</u></b>	<b><u>1,847</u></b>	<b><u>1,759</u></b>

**Note 10 Financial assets available-for-sale**

	<b>30/06/06</b>	<b>30/06/06</b>	<b>31/12/05</b>	<b>31/12/05</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
US corporate bonds	562	562	595	595
Unlisted equity securities	1,437	187	1,046	199
<b>Total securities available-for-sale</b>	<b><u>1,999</u></b>	<b><u>749</u></b>	<b><u>1,641</u></b>	<b><u>794</u></b>

**Note 11 Loans to non-banking customers**

Loans to non-banking customers are comprised of the following:

	<b>30/06/06</b>	<b>30/06/06</b>	<b>31/12/05</b>	<b>31/12/05</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
Private companies	221,449	216,943	196,490	189,047
Individuals	82,243	82,243	60,895	60,375
<b>Total gross loans and advances to non-banking customers</b>	<b><u>303,692</u></b>	<b><u>299,186</u></b>	<b><u>257,385</u></b>	<b><u>249,422</u></b>
Specific loan impairment losses	(998)	(998)	(1,109)	(1,109)
<b>Loans and advances to non-banking customers, net</b>	<b><u>302,694</u></b>	<b><u>298,188</u></b>	<b><u>256,276</u></b>	<b><u>248,313</u></b>

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**Note 12 Held -to-maturity investments: group and bank**

	<b>30/06/06</b>	<b>31/12/05</b>
	<b>Ls'000</b>	<b>Ls'000</b>
US government bonds	16,854	32,737
Great Britain corporate bonds	13,085	13,890
Luxemburg corporate bonds	11,126	11,782
France corporate bonds	5,141	5,186
Australian corporate bonds	3,920	4,151
US corporate bonds	3,899	4,123
Holland corporate bonds	2,818	2,984
Russian corporate bonds	2,602	2,757
Carrying value of Argentina government bonds	538	570
<b>Total securities held-to-maturity</b>	<b><u>59,983</u></b>	<b><u>78,180</u></b>
<b>Term placements with:</b>		
Latvian commercial banks	9,019	18,446
OECD credit institutions	79,376	1,392
Non-OECD credit institutions	42,609	37,738
<b>Total term placements</b>	<b><u>131,004</u></b>	<b><u>57,576</u></b>
<b>Total held-to maturity investments</b>	<b><u><u>190,987</u></u></b>	<b><u><u>135,756</u></u></b>

**Note 13 Investments in subsidiaries and other related entities**

<u>Name</u>	<u>Business</u>	<u>Amount of</u>	<u>Amount of</u>	<u>Amount of</u>	<u>Amount of</u>	<u>Country of</u>
		<u>ownership</u>	<u>investment</u>	<u>ownership</u>	<u>investment</u>	
		<u>(%)</u>	<u>(Ls '000)</u>	<u>(%)</u>	<u>(Ls '000)</u>	<u>incorporation</u>
			<u>30/06/06</u>		<u>31/12/05</u>	
RB Securities Ltd.	Financial services	99.99	7,700	99.99	7,700	Cyprus
AS RB Securities Latvia IBS	Financial services	100	455	100	455	Latvia
AS RB Asset Management IPS	Trust management	100	700	100	700	Latvia
SIA RB Investments	Investment projects	100	2,000	100	2,000	Latvia
SIA RB Drošība	Security services	100	50	100	2	Latvia
SIA Centrus	Construction and renovation	-	0	100	246	Latvia
SIA RB Vidzeme	Real estate	100	50	100	50	Latvia
Alphyra Rietumu Financial Services Lim.	Financial services	49	258	49	258	Ireland
			<b><u>11,213</u></b>		<b><u>11,411</u></b>	

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**Note 14 Related party transactions**

Related parties are defined as shareholders who have significant influence over the Bank, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies.

Loans and advances issued to related parties were as follows:

	<b>30 June 2006</b> <b>Ls'000</b>
<b>Loans</b>	
Loans at the beginning of period	6,144
Loans to management and directors issued during year	89,207
Transfers	580
Loans repaid during period (net)	(89,614)
Loans as at end of period	<u><u>6,317</u></u>
Interest income earned	181
<b>Deposits</b>	
Deposits at the beginning of period	4,926
Deposits received during the period	845,842
Transfers	(5)
Deposits repaid during the year	(835,126)
Deposits at the end of period	<u><u>15,637</u></u>
Interest expense on deposits	235
Guarantees and credit lines issued	1,464

**Note 15 Memorandum items**

**Legal Proceedings** As at 30 June 2006 there were 2 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 1,286 thousand. Provisions are made for claims where management on the basis of professional advice to the Bank, considers that it is likely that a loss may eventuate (2005: 1 outstanding legal proceeding against the Bank). As at 30 June 2006, the amount of claims provision was nil (2005: nil).

**Contingent liability** One of the Bank's subsidiaries, RB Securities Limited ("the subsidiary") transacted with Refco Capital Markets Ltd for brokerage and asset management services for its customers, as well as custodian of customers' securities. In October 2005 Refco Capital Markets Ltd filed for Chapter 11 bankruptcy. In 2006 US court put Refco Capital Markets Ltd under chapter 7 bankruptcy, under which a committee of creditors is in charge of selling off the assets to maximize their receivable amounts. As at 30 June 2006, customers' assets held y at Refco Capital Markets Ltd was US\$ 62 million.

The subsidiary is proceeding with asset recovery of its customers. The head of the subsidiary, is among the five people in the creditors committee. The subsidiary is named as the creditor in the US courts, although the transactions were made by the subsidiary on behalf of its customers.

As at 30 June 2006 management of the subsidiary is not aware of any legal claims outstanding against the Group related to Refco Capital Markets Ltd. Management believes that agreements with customers reflect the risk of default by a third party is with customers and not the subsidiary. The subsidiary has recognized a provision for legal expenses in the case against Refco Capital Markets Ltd of US\$ 381,093 at 30 June 2006.

Management of the Bank does not believe there is a legal risk arising to the Bank from the activities of the subsidiary. Management has not recognized a provision in the Bank and Group financial statements for claims arising from transactions with Refco Capital Markets Ltd.

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**Note 16    Capital adequacy**

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and similar risks arising from the portfolio of assets of the Bank and the memorandum items exposure of the Bank.

The Group's risk based capital adequacy ratio, as at 30 June 2006 was 14.40% (17.12% if net profit for the 6 months period is included in the regulatory capital), which is above the minimum ratio recommended by the 1998 Basle Committee guidelines of 8%. In accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 12.95% (15.52%). The Finance and Capital Market Commission requires Latvian banks to maintain a capital adequacy ratio of 10 % of risk-weighted assets.