

RIETUMU Banka AS

Condensed Interim Financial
Statements

for the six month period ended

30 June 2012

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Report of Council and Board of Directors

Operating Results

For Rietumu Bank, the first half of 2012 was very successful and promising from an operational, financial and strategic point of view. The Bank has continued to enhance its reputation as one of the best managed and stable financial institutions in the Baltic States. The Bank is one of the largest privately owned banks in the Baltic States offering a comprehensive range of banking products and services for corporate customers and high net worth individuals. The Bank has extensive experience in the EU and CIS countries and the Group sees itself as a bridge between East and West as many of its customers operate in Latvia, the Baltic States, Western Europe, Russia and other CIS countries. The Bank understands business environments in both Western and Eastern Europe.

Financial results of the Bank were very positive and return on assets and return on equity increased in comparison with the first half of 2011. One of the cornerstones of our development has always been conservatism and safety and we achieved this year's financial results while maintaining a very liquid balance sheet with relatively high capital ratios. Total assets have increased funded by customer deposits which have continued to grow during 2012 proving underlying confidence depositors hold in the Bank as well the competitiveness of the Bank's products.

The Bank considers that relationship banking is one of the keys to its success. Customers receive an individual and tailor-made approach to decision making, exceptional professionalism, integrity and confidentiality. All customers have access to the Bank remotely through internet banking, phone banking, private bankers, regional managers and a 24 h customer support service.

In 2012, as before, the Bank focused its lending on medium sized projects in Latvia as well as in the Baltic States, Russia and CIS countries. The Bank's lending is split between corporate lending in Latvia, private lending, international lending and trade finance. As in 2011, much of the focus and success has been on the finance of international trade supporting raw materials that are exported from CIS countries as well as consumer goods that are imported into these countries.

Another key component to the relationship with our customer has been in the areas of wealth protection, asset management and brokerage. In 2012 these businesses continued to be very successful and offering customers opportunities for trading on global markets and a comprehensive range of asset management services.

The Bank also has a wide range of credit cards including the exclusive World Signia card which features exceptional functionality coupled with concierge service in various languages. E-commerce is a priority and continues to expand offering services to corporate customers allowing for payments with credit and debit cards through the internet.

In 2012, Rietumu Charity Fund continued to support charity and arts patronage, with the focus on supporting projects in medical and child care, and social sphere. The Bank is celebrating its 20th anniversary in 2012 and launched a cultural events support program to celebrate this anniversary.

Financial results

	30 June 2012 (6 months)	31 December 2011	30 June 2011 (6 months)	31 December 2010	30 June 2010 (6 months)
At period end (LVL'000)					
Total assets	1,589,856	1,388,401	1,127,998	1,116,323	997,323
Loans and receivables due from customers	678,440	605,432	510,067	535,849	532,269
Due to customers	1,345,495	1,234,827	985,296	971,004	803,944
Total shareholders' equity	143,576	136,057	130,554	137,909	136,745
For the period (LVL'000)					
Net profit before income tax	9,461	13,057	3,309	4,887	2,856
Net profit after tax	7,827	10,613	2,645	3,187	2,023
Net interest income	14,667	22,560	9,653	20,904	10,110
Net commission income	8,607	14,054	6,041	10,713	4,782
Capital adequacy	16.65% 17.46%*	17.20%	18.58% 18.93% *	17.82%	17.67% 17.95% *

* Capital adequacy rate, including profit for 6 months (upon receiving the Financial and Capital Market Commission permission)

The Bank's total assets increased in the first half of 2012 to LVL 1,589.9 m compared to LVL 1.128 m in the first half of 2011. This growth is due to a significant increase in customer balances during this period. Customer deposits increased by 36% to LVL 1.345 m compared to LVL 985 m as at 30 June 2011 again reaching record levels.

Loans and advances to customers grew to LVL 678 m or by 33% when compared to LVL 510 m as at 30 June 2011. The Bank's policy of keeping high liquid ratios remained the same and excess funding was invested primarily into short term money market instruments as well as liquid investment grade sovereign and corporate bonds.

Net profit after tax has increased to LVL 7.827 m as compared to LVL 2.645 m for the six month period ended 30 June 2011. The Bank's total shareholders' equity increased to LVL 143.576 m.



KPMG Baltics SIA

Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00

Fax +371 670 380 02

Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of AS Rietumu Banka

We have audited the accompanying condensed interim financial information of AS Rietumu Banka, which comprises the condensed interim statement of financial position as at 30 June 2012, the related condensed interim income statement and condensed interim statements of other comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2012, and condensed notes to the condensed interim financial information, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 31.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with IAS 34 *Interim Financial Reporting* and for such internal controls as management determines are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the condensed interim financial information of AS Rietumu Banka as at and for the six month period ended 30 June 2012 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Report of Council and Board of Directors, as set out on pages 2 to 3, the preparation of which is the responsibility of management, is consistent with the condensed interim financial information. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the condensed interim financial information. In our opinion, the management report is consistent with the condensed interim financial information.

KPMG Baltics SIA
License No 55


Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
22 August 2012

Valda Užāne
Sworn Auditor
Certificate No 4

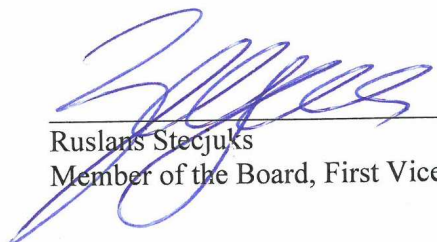
CONDENSED INTERIM INCOME STATEMENT

		Six months ended 30 June	
		2012	2011
		'000 LVL	'000 LVL
	Note		
Interest income	7	21,569	15,923
Interest expense	7	(6,902)	(6,270)
Net interest income		14,667	9,653
Fee and commission income	8	11,079	7,622
Fee and commission expense	9	(2,472)	(1,581)
Net fee and commission income		8,607	6,041
Net gain/(loss) on financial instruments at fair value through profit or loss		1,595	(489)
Net foreign exchange income		5,055	4,883
Net realised loss on available-for-sale assets		(434)	-
Other income/(expenses)	10	525	(440)
Operating income		30,015	19,648
Impairment losses	11	(6,881)	(5,200)
General administrative expenses	12	(13,673)	(11,139)
Profit before income tax		9,461	3,309
Income tax expense	13	(1,634)	(664)
Net profit for the period		7,827	2,645

The condensed interim financial statements as set out on pages 6 to 31 are authorised for issue by:



 Leonid Esterkin
 Chairman of the Council



 Ruslans Stecjuks
 Member of the Board, First Vice-President

The accompanying notes on pages 11 to 31 are an integral part of the condensed interim financial statements.

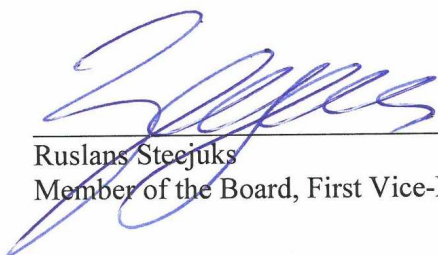
**CONDENSED INTERIM STATEMENT OF
COMPREHENSIVE INCOME**

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Profit for the period	7,827	2,645
Other comprehensive income		
Revaluation of available-for-sale financial assets	2,760	-
Income tax related to components of other comprehensive income	(414)	-
Other comprehensive income for the period	2,346	2,645
Total comprehensive income for the period	10,173	2,645

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Leonid Esterkin
Chairman of the Council



Ruslans Steejuks
Member of the Board, First Vice-President

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CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	30 June 2012 '000 LVL	31 December 2011 '000 LVL
ASSETS			
Cash and balances with the Central Bank	14	66,171	71,634
Financial instruments at fair value through profit or loss	15	39,143	52,592
Loans and receivables due from banks	17	589,892	491,833
Loans and receivables due from customers	18	678,440	605,432
Reverse repo	16	67,304	-
Available-for-sale assets	19	88,508	106,835
Held-to-maturity investments	20	15,435	15,302
Investments in subsidiaries		18,759	18,759
Property and equipment		3,884	4,234
Intangible assets		1,786	2,047
Investment property	21	6,239	6,926
Current tax asset		38	-
Deferred tax asset		-	95
Other assets	22	14,257	12,712
Total Assets		1,589,856	1,388,401
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	15	215	186
Deposits and balances due to banks	23	18,865	13,720
Current accounts and deposits due to customers	24	1,345,495	1,234,827
Amounts repayable under repurchase agreements	25	77,717	-
Current tax liability		-	551
Deferred tax liability		375	-
Other liabilities	26	3,613	3,060
Total Liabilities		1,446,280	1,252,344
Share capital		100,000	100,000
Share premium		4,809	4,809
Revaluation reserve		1,754	1,754
Other reserves		10,016	10,016
Revaluation reserve of available-for-sale assets		(119)	(2,465)
Retained earnings		27,116	21,943
Total Shareholders' Equity		143,576	136,057
Total Liabilities and Shareholders' Equity		1,589,856	1,388,401
Commitments and Contingencies	27	57,108	73,449

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 Leonid Esterkin
 Chairman of the Council

 Ruslans Stecjuks
 Member of the Board, First Vice-President

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CONDENSED INTERIM STATEMENT OF CASH FLOWS

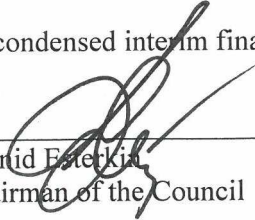
	Six months ended 30 June	
	2012	2011
Note	'000 LVL	'000 LVL
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	9,461	3,309
Amortisation and depreciation	880	1,050
Loss from sale of property	-	(2)
Loss from sale of subsidiary	-	710
Impairment losses	6,881	5,200
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	17,222	10,267
(Increase) / decrease in loans and receivables from banks	277,603	(52,284)
(Increase) / decrease in loans and receivables from customers	(79,839)	20,457
(Increase) / decrease in reverse repo	(67,304)	4,449
Decrease in available-for-sale assets	20,716	-
(Increase) / decrease in financial instruments at fair value through profit or loss other than derivatives	13,449	(89,585)
Increase / (decrease) in derivative liabilities	29	(285)
(Increase) / decrease in other assets	(1,830)	2,118
Increase / (decrease) in deposits and balances due to banks	(426)	472
Increase in current accounts and deposits due to customers	110,668	14,292
Increase in amounts payable under repurchase agreements	77,717	-
Increase in other liabilities	553	488
(Decrease)/increase in cash and cash equivalents from operating activities before corporate income tax	368,558	(89,611)
Corporate income tax paid	(1,598)	(904)
Net cash and cash equivalents used in operating activities	366,960	(90,515)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(162)	(654)
Proceeds from sale of property and equipment	10	7
Sale of investments in subsidiaries	-	395
(Increase) / decrease in held-to-maturity investments	(213)	64
Decrease in investment property	687	-
Increase / (decrease) in cash and cash equivalents from investing activities	322	(188)
CASH FLOW FROM FINANCING ACTIVITIES		
Decrease of other reserves	-	(10,000)
Dividends paid	(2,654)	-
Decrease in cash and cash equivalents from financing activities	(2,654)	(10,000)
Net cash flow for the period	364,628	(100,703)
Cash and cash equivalents at the beginning of the period	244,933	301,191
Cash and cash equivalents at the end of the period	609,561	200,488
	14	

The accompanying notes on pages 11 to 31 are an integral part of the condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Revaluation reserve	Other reserves	Revaluation reserve of available-for- sale assets	Retained earnings	Total equity
	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Balance at 1 January 2011	100,000	4,809	1,754	20,016	-	11,330	137,909
Total comprehensive income							
Profit for the period	-	-	-	-	-	2,645	2,645
Total comprehensive income	-	-	-	-	-	2,645	2,645
Transactions with owners, recorded directly in equity							
Decrease of reserve capital	-	-	-	(10,000)	-	-	(10,000)
Balance at 30 June 2011	100,000	4,809	1,754	10,016	-	13,975	130,554
Total comprehensive income							
Profit for the period	-	-	-	-	-	7,968	7,968
Other comprehensive income	-	-	-	-	(2,465)	-	(2,465)
Total comprehensive income	-	-	-	-	(2,465)	7,968	5,503
Balance at 31 December 2011	100,000	4,809	1,754	10,016	(2,465)	21,943	136,057
Total comprehensive income							
Profit for the period	-	-	-	-	-	7,827	7,827
Other comprehensive income	-	-	-	-	2,346	-	2,346
Total comprehensive income	-	-	-	-	2,346	7,827	10,173
Transactions with owners, recorded directly in equity							
Dividends paid	-	-	-	-	-	(2,654)	(2,654)
Balance at 30 June 2012	100,000	4,809	1,754	10,016	(119)	27,116	143,576

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Chairman of the Council



Ruslans Stecjuks
Member of the Board, First Vice-President

The accompanying notes on pages 11 to 31 are an integral part of the condensed interim financial statements.

1 Background

JSC “Rietumu Banka” was established in the Republic of Latvia as a joint stock company and was granted its general banking licence in 1992.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission (“FCMC”). The registered address of the Bank’s head office is Vesetas Street 7, Riga, Latvia.

2 Basis of preparation

(a) Statement of compliance

These condensed interim financial statements of the Bank are prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. These condensed interim financial statements do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2011. The Bank also prepares consolidated interim financial statements for the six-month period ended 30 June 2012.

The audited financial statements as at and for the year ended 31 December 2011 are available at the Bank’s web site: www.rietumu.com.

The Executive Board approved the condensed interim financial statements for issue on 22 August 2012. The condensed interim financial statements may be amended by the shareholders.

(b) Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000’s), unless otherwise stated, and the lat is the Bank’s functional currency.

3 Significant accounting policies

The accounting policies applied by the Bank in these condensed interim financial statements are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2011.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 Significant accounting policies (continued)

New Standards and Interpretations

The following new Standards and Interpretations are not yet effective for the interim period ended 30 June 2012 and have not been applied in preparing these interim condensed financial statements:

- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012, to be applied retrospectively). The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. The amendments change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.
- Amendments to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are not relevant to the Bank's financial statements, since the entity does not have any defined benefit plans.

4 Risk management

All aspects of the Bank's risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2011.

Sensitivity of financial instruments at fair value through profit or loss to interest rate, currency and price risks is presented below. There have been no significant changes to sensitivity of other assets and liabilities to risks as presented in Bank's financial statements for the year ended 31 December 2011, and therefore sensitivities of other components are not disclosed in these condensed interim financial statements.

(i) ***Interest rate risk***

'000 LVL	Net income for six month period ended 30 June	
	2012	2011
500 bp parallel increase	93	1,535
500 bp parallel decrease	(93)	(1,535)

4 Risk management (continued)

(ii) Currency risk

'000 LVL	Net income for six month period ended 30 June	
	2012	2011
5% strengthening of USD against LVL	291	3,672
5% weakening of USD against LVL	(291)	(3,672)
5% strengthening of EUR against LVL	1,445	2,857
5% weakening of EUR against LVL	(1,445)	(2,857)

The foreign exchange rate LVL/EUR is pegged as at 30 June 2012, 30 June and 31 December 2011.

(iii) Price risk

'000 LVL	Net income for six month period ended 30 June	
	2012	2011
5% increase in securities prices	1,947	6,536
5% decrease in securities prices	(1,947)	(6,536)

5 Capital management

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by the Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 30 June 2012, the individual minimum level is 15.1%. The Bank was in compliance with the FCMC determined individual capital ratio during the six-month periods ended 30 June 2011 and 30 June 2012, as well as during the year ended 31 December 2011. The Bank's risk based capital adequacy ratio, as at 30 June 2012, was 17.46% (31 December 2011: 17.20% and 30 June 2011: 18.93%)

6 Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, 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.

6 Use of estimates and judgements (continued)

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2011:

- Allowances for credit losses on loans and receivables
- Determining fair value of financial instruments
- Impairment of held-to-maturity investments
- Impairment of available-for-sale investments
- Determining fair value of property
- Impairment of assets shown under other assets
- Impairment of investments in subsidiaries
- Impairment of goodwill
- Useful lives of equipment
- Deferred tax asset recognition

As a result of reassessment of estimates mentioned above, management concluded that changes in the following estimates occurred during the six month period ended 30 June 2012:

- Allowances for credit losses on loans and receivables (see note 18);
- Impairment of assets shown under other assets (see note 22);

7 Net interest income

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Interest income		
Loans and receivables due from customers	18,665	13,349
Financial instruments at fair value through profit or loss	1,308	1,681
Loans and receivables due from financial institutions	996	745
Amounts receivable under repurchase agreements	357	113
Held-to-maturity investments	243	35
	21,569	15,923
Interest expense		
Current accounts and deposits due to customers	5,057	5,262
Deposits and balances due to financial institutions	10	10
Amounts payable under repurchase agreements	8	-
Other	1,827	998
	6,902	6,270

8 Fee and commission income

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Money transfers	4,487	3,130
Commission income from payment cards	3,444	2,158
Revenue from customer asset management and brokerage commission	842	807
Remote system fee	67	301
Commission from account servicing	377	202
Commission from documentary operations	217	119
Cash withdrawal fees	104	101
Other	1,541	804
	11,079	7,622

9 Fee and commission expense

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Payment card expenses	1,328	776
Agent commissions	538	325
Brokerage commissions	226	233
Correspondent accounts	189	163
Loan commissions	47	48
Cash withdrawals	4	4
Other	140	32
	2,472	1,581

10 Other income /(expenses)

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Income from operating leases	33	246
Penalties received	113	109
Dividends received	400	17
(Loss on write-off)/recovery of assets written off	4	(60)
Gain/(loss) from sale of property	8	(140)
Loss from sale of subsidiary	-	(710)
Other (net)	(33)	98
	525	(440)

11 Impairment losses

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Impairment losses		
Loans and receivables due from customers	10,649	9,183
Held-to-maturity investments	80	104
Investments in subsidiaries and associates	-	2,390
Other assets	17	75
	10,746	11,752
Reversals of impairment losses		
Loans and receivables due from customers	(3,818)	(4,516)
Investments in subsidiaries and associates	-	(1,675)
Available-for-sale financial assets	(43)	(355)
Other assets	(4)	(6)
	(3,865)	(6,552)
Net impairment losses	6,881	5,200

12 General administrative expenses

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Employee compensation	5,515	4,379
Payroll related taxes	1,289	1,091
Rent	891	878
Depreciation and amortization	880	1,050
Salaries to Board of Directors and Council	677	514
IT service and IT material consumption	534	534
Communications and information services	439	372
Taxes other than on corporate income and payroll	410	468
Representative offices	390	194
Travel expenses	351	334
Advertising and marketing	305	330
Credit card service	298	175
Professional services	296	101
Utilities and maintenance	268	264
Charity and sponsorship	252	138
Insurance	69	79
Representation	55	60
Subscription of information	31	30
Office supplies (Stationery)	21	19
Security	18	24
Other	684	105
	13,673	11,139

13 Income tax expense

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Current tax expense		
Current year	1,629	664
Under/(over) provided in prior years	(51)	-
Deferred tax expense		
Origination and reversal of temporary differences	56	-
Total income tax expense in the income statement	1,634	664

13 Income tax expense (continued)

The tax rate applicable to expected annual earnings is 15% (2011: 15%). The difference between the applicable tax rate and effective tax rate is caused mainly due to tax non-deductible expenses, tax-exempt income, and tax relief on donations.

Reconciliation of effective tax rate:

	2012		2011	
	'000 LVL	%	'000 LVL	%
Income before tax	9,461		3,309	
Income tax at the applicable tax rate	1,419	15.00%	496	15.00%
Non-deductible expenses	266	2.81%	168	5.08%
Under/(over) provided in prior years	(51)	(0.54%)	-	-
	1,634	17.27%	664	20.08%

14 Cash and balances with the Central Bank

Cash and Due from the Central Bank consist of the following:

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Cash	3,473	3,095
Balances due from the Bank of Latvia	62,698	68,539
Total	66,171	71,634

Cash and cash equivalents consist of the following:

	30 June 2012 '000 LVL	30 June 2011 '000 LVL
Cash	3,473	2,305
Balances due from the Bank of Latvia	62,698	76,275
Demand loans and receivables from banks	561,805	130,234
Demand deposits from banks	(18,415)	(8,326)
Total	609,561	200,488

15 Financial instruments at fair value through profit or loss

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Bonds		
- with rating from AAA to A	19,344	36,269
- with rating from BBB+ to BBB-	18,860	15,206
- non-investment grade	65	312
Equity investments	438	484
Derivative financial instruments	436	321
Total assets at fair value through profit or loss	39,143	52,592
Derivative financial instruments	(215)	(186)
Total liabilities at fair value through profit or loss	(215)	(186)
<i>Of which pledged under sale and repurchase agreements</i>		
Bonds	26,832	-
	26,832	-

15 Financial instruments at fair value through profit or loss (continued)

Derivative financial assets and liabilities

	30 June 2012 '000 LVL		31 Dec 2011 '000 LVL	
	Carrying value	Notional value	Carrying value	Notional value
Assets				
Forward contracts	250	18,800	114	6,315
Option	180	n/a	204	n/a
Swap contracts	6	674	3	193
Total derivative financial assets	436		321	
Liabilities				
Forward contracts	209	16,092	69	2,281
Swap contracts	6	138	117	7,999
Total derivative liabilities	215		186	

16 Reverse repo

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Commerzbank (DE)	56,051	-
Goldman Sachs (GB)	11,253	-
	67,304	-

17 Loans and receivables due from banks

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Demand accounts		
Latvian commercial banks	55	45,810
OECD banks	554,890	119,961
Non-OECD banks	6,860	20,372
Total demand accounts	561,805	186,143
Deposit accounts		
Latvian commercial banks	5,061	27,200
OECD banks	17,725	265,120
Non-OECD banks	5,301	13,370
Total loans and deposits	28,087	305,690
	589,892	491,833

17 Loans and receivables due from banks (continued)

Concentration of placements with banks and other financial institutions

As at 30 June 2012 and 31 December 2011, the Bank had balances with one and two banks, respectively, which exceeded 10% of the total placements with banks and other financial institutions. The gross value of these balances was LVL 63,186 and LVL 107,894 thousand respectively.

18 Loans and receivables due from customers

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Private companies	666,299	585,826
Individuals	61,494	61,886
Specific impairment allowance private companies	(36,369)	(29,458)
Specific impairment allowance individuals	(12,984)	(12,820)
Collective impairment allowance	-	(2)
Net loans and advances to customers	678,440	605,432

(a) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms				Net carrying value of overdue loans
			Less than 30 days	31-90 days	91-180 days	More than 180 days	
As at 30 June 2012							
Net carrying amount	678,440	633,926	13,105	14,271	3,817	13,321	44,514
Out of which impaired	75,275	54,899	4,595	3,643	2,526	9,612	20,376
Assessed fair value of collateral	851,878	793,979	17,324	13,591	5,679	21,305	57,899
As at 31 December 2011							
Net carrying amount	605,432	538,409	40,182	14,046	572	12,223	67,023
Out of which impaired	60,834	45,417	2,056	3,315	246	9,800	15,417
Assessed fair value of collateral	746,060	650,029	30,794	45,666	755	18,816	96,031

The fair value of collateral is estimated by management of the Bank based on the market and financial position of the borrowers.

18 Loans and receivables due from customers (continued)

(ii) Analysis of loan by type of collateral

The following table provides the analysis of collateral for the loan portfolio, net of impairment, by types of collateral as at 30 June 2012 and 31 December 2011:

	LVL'000	30 June 2012	% of loan portfolio	31 December 2011	% of loan portfolio
Commercial buildings		226,293	33.36	217,221	35.88
Commercial assets pledge		154,272	22.74	106,870	17.65
Listed securities		93,465	13.78	97,278	16.07
Other mortgage		77,028	11.35	56,182	9.28
Without collateral		52,921	7.80	43,826	7.23
Land mortgage		40,057	5.90	47,514	7.85
Mortgage on residential properties		27,275	4.02	30,439	5.02
Deposit		3,061	0.45	834	0.14
Guarantee		2,496	0.37	3,731	0.62
Non-listed securities		1,201	0.18	1,133	0.19
Other		371	0.05	404	0.07
Total		678,440	100.00	605,432	100.00

The amounts shown in the table above represent the carrying value of the loans and do not necessarily represent the fair value of the respective collateral.

(iii) Loan categories

The Bank sets the following categories for individual loans to assess credit risk:

	30 June 2012			31 Dec 2011		
	Gross '000 LVL	Specific impairment allowance	Collective impairment allowance	Gross '000 LVL	Specific impairment allowance	Collective impairment allowance
Standard	617,069	(446)	-	549,720	(144)	(2)
Watch	35,529	(5,598)	-	37,293	(4,826)	-
Substandard	40,149	(14,043)	-	28,947	(10,869)	-
Doubtful	27,939	(22,227)	-	28,823	(23,520)	-
Lost	7,107	(7,039)	-	2,929	(2,919)	-
Total	727,793	(49,353)	-	647,712	(42,278)	(2)

18 Loans and receivables due from customers (continued)

(iv) *Movements in the impairment allowances*

	Jan – June 2012 '000 LVL	July – Dec 2011 '000 LVL	Jan – June 2011 '000 LVL
Specific allowance for impairment			
Balance at the beginning of the period	42,280	40,425	36,405
Charge for the period	10,649	6,675	9,183
Reversal of impairment loss	(3,818)	(4,151)	(4,516)
Effect of currency exchange translation	257	235	(322)
Write offs	(15)	(904)	(325)
Balance at the end of the period	49,353	42,280	40,425

(v) *Restructured loans*

As at 30 June 2012, the Bank held restructured loans of LVL 116,453 thousand (31 December 2011: LVL 96,911). Main forms of restructuring were reduction of interest rate, postponement of interest payments or principal payments.

(b) **Industry analysis of the loan portfolio**

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Financial services	262,314	244,402
Real estate management	193,606	194,174
Individuals	61,494	49,066
Transport and communication	32,675	15,956
Construction	32,456	22,898
Wholesale and retail	30,523	28,617
Manufacturing	23,190	21,346
Food industry	7,599	7,145
Tourism	7,494	7,426
Other	27,089	14,402
	678,440	605,432

18 Loans and receivables due from customers (continued)

(a) Geographical analysis of the loan portfolio

	30 June 2012			31 Dec 2011		
	Gross value '000 LVL	Impairment '000 LVL	Net value '000 LVL	Gross value '000 LVL	Impairment '000 LVL	Net value '000 LVL
Latvia	178,143	(26,072)	152,071	250,084	(31,586)	218,498
OECD countries	71,626	(3,106)	68,520	73,715	(1,804)	71,911
Non-OECD countries	478,024	(20,175)	457,849	323,913	(8,890)	315,023
	727,793	(49,353)	678,440	647,712	(42,280)	605,432

(b) Significant credit exposures

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity. As at 31 December 2011 and 30 June 2012 the Bank was in compliance with this requirement.

19 Available-for-sale assets

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Equity investments		
<i>Equity shares</i>		
RB Opportunity Fund I	24,599	24,599
Impairment allowance	(2,353)	(2,396)
Net value	22,246	22,203
RBAM Fixed Income Fund	7,050	6,662
Corporate shares	168	168
<i>Bonds</i>		
- with rating from AAA to A	32,558	53,053
- with rating from BBB+ to BBB-	23,076	19,447
- non-investment	3,410	5,302
	88,508	106,835
Of which pledged under sale and repurchase agreements	50,500	-

20 Held-to-maturity investments

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Government and municipal bonds		
Argentina government bonds	944	901
Total government and municipal bonds	944	901
Corporate bonds		
-Russia	15	15
-USA	14,740	14,562
Total corporate bonds	14,755	14,577
Impairment allowance	(264)	(176)
Total held-to-maturity investments	15,435	15,302
Of which pledged under sale and repurchase agreements	14,740	-

Analysis of movements in the impairment allowance

	Jan – Jun 2012 '000 LVL	June – Dec 2011 '000 LVL	Jan - Jun 2011 '000 LVL
Balance at the beginning of the period	176	104	-
Net charge/(recovery) for the period	80	72	104
Currency revaluation	8	-	-
Balance at the end of the period	264	176	104

21 Investment property

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Balance at 1 January	6,926	5,861
Collateral from loans assumed	-	499
Transferred from advances	-	170
Additions	7	76
Revaluation	-	320
Sold	(694)	-
Balance at the end of the period	6,239	6,926

22 Other assets

(a) Other assets

	30 June 2012	31 Dec 2011
	'000 LVL	'000 LVL
Collateral assumed on non performing loans	8,945	9,059
Guarantee receivable from borrower	2,503	2,606
Prepayments	1,272	711
Recoverable VAT	73	106
Other	3,293	2,045
Impairment allowance on collateral assumed	(1,829)	(1,815)
	14,257	12,712

(b) Analysis of movements in the value of collateral assumed on non performing loans

	Six months ended	12 months ended
	30 June 2012	31 Dec 2011
	'000 LVL	'000 LVL
Balance at the beginning of the period	9,059	14,321
Reclassified to guarantee receivable	-	(528)
Reclassified to investment property	-	(499)
Sale of collateral completed	(114)	(4,235)
Balance at the end of the period	8,945	9,059

(c) Analysis of movements in the impairment allowance

	Jan – June 2012	July – Dec 2011	Jan – June 2011
	'000 LVL	'000 LVL	'000 LVL
Balance at the beginning of the period	1,815	1,150	3,828
Net charge for the period	17	134	69
Net recovery for the period	(4)	(9)	-
Write-offs	-	540	(2,747)
Currency revaluation	1	-	-
Balance at the end of the period	1,829	1,815	1,150

23 Deposits and balances due to banks

	30 June 2012	31 Dec 2011
	'000 LVL	'000 LVL
Vostro accounts	18,415	12,844
Term deposits	450	876
	18,865	13,720

Concentration of deposits and balances from banks and other financial institutions

As at 30 June 2012 the Bank had balances with four banks and financial institutions (three as at 31 December 2011), which exceeded 10% of the total deposits and balances from banks. The gross value of these balances was LVL 14,134 thousand as of 30 June 2012 and LVL 10,049 thousand as of 31 December 2011.

24 Current accounts and deposits due to customers

	30 June 2012	31 Dec 2011
	'000 LVL	'000 LVL
<i>Current accounts and demand deposits</i>		
- State enterprises	3	3
- Private companies residents	50,146	37,839
- Individuals residents	28,995	28,609
-Government – foreign	32	53
- Private companies non-residents	854,678	780,437
- Individuals non-residents	142,928	111,224
Total current account and demand deposits	1,076,782	958,165
<i>Term deposits</i>		
- Private companies residents	4,186	4,944
- Individuals residents	35,601	38,195
- Private companies non-residents	138,098	146,230
- Individuals non-residents	38,032	42,068
<i>Subordinated deposits</i>		
- Individuals residents	6,491	6,343
- Private companies non-residents	13,192	10,965
- Individuals non-residents	33,113	27,917
Total term deposits	268,713	276,662
Total current accounts and deposits due to customers	1,345,495	1,234,827

Subordinated deposits have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank, and rank before shareholders' claims.

(a) Blocked accounts

As of 30 June 2012 and 31 December 2011, the Bank maintained customer deposit balances of LVL 5,865 thousand and LVL 4,090 thousand respectively, which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(b) Concentrations of current accounts and customer deposits

As of 30 June 2012 and 31 December 2011, the Bank had no customers whose balances exceeded 10% of total customer accounts.

25 Amounts repayable under repurchase agreements

	30 June 2012	31 Dec 2011
	'000 LVL	'000 LVL
Commerzbank (DE)	77,717	-
	<u>77,717</u>	<u>-</u>

26 Other liabilities

	30 June 2012	31 Dec 2011
	'000 LVL	'000 LVL
Accrual for management bonus	937	596
Accrued liability for Deposits Guarantee Fund	824	439
Accrual for annual leave	655	655
Deferred income	120	72
Prepayments	61	24
Accrued liability for supervisory institution fees (FCMC)	49	47
Dividends payable	4	4
Other accrued liabilities	444	86
Other	519	1,137
Total other liabilities	<u>3,613</u>	<u>3,060</u>

27 Commitments and contingencies

	30 June 2012	31 Dec 2011
	'000 LVL	'000 LVL
Loan and credit line commitments	36,707	50,574
Guarantees and letters of credit	7,553	9,926
Undrawn overdraft facilities	5,007	6,286
Credit card commitments	7,841	6,663
Total Commitments and contingencies	<u>57,108</u>	<u>73,449</u>

28 Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. As at 30 June 2012 there were 17 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 4,010 thousand (31 December 2011: LVL 3,982). Provisions are made for where the management, based on the professional advice to the Bank, considers that it is likely that loss may eventuate. No new provisions were made in 2012. The provisions previously created were released due to change in evidence available to the management of the Bank.

29 Related party transactions

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

(a) Shareholders, Members of the Council and Board

Loans and receivables:

	6 months 2012	12 months 2011
	'000 LVL	'000 LVL
Loans and receivables at the beginning of the period	686	662
Loans issued during the period	19	92
Due to changes in the structure of related parties	1	39
Forex translation effect	(10)	1
Loan repayment during the period	(95)	(108)
Loans and receivables at the end of the period	601	686
Interest income earned	11	26

Deposits

	6 months 2012	12 months 2011
	'000 LVL	'000 LVL
Deposits at the beginning of the period	5,984	4,396
Deposits received during the period	4,184	3,776
Forex translation effect	4	2
Deposits repaid during the period	(473)	(2,190)
Deposits at the end of the period	9,699	5,984
Interest expense on deposits	361	392

29 Related party transactions (continued)

(b) Subsidiaries

Loans and receivables:

	6 months 2012	12 months 2011
	'000 LVL	'000 LVL
Loans and receivables at the beginning of the period	60,478	52,139
Loans issued during the period	31,119	103,455
Forex translation effect	287	71
Due to changes in the structure of related parties	-	(2,259)
Loan repayment during the period	(15,973)	(92,928)
Loans and receivables at the end of the period	75,911	60,478
Interest income earned	2,019	3,120

Deposits

	6 months 2012	12 months 2011
	'000 LVL	'000 LVL
Deposits at the beginning of the period	1	1
Deposits received during the period	487	1,100
Deposits repaid during the period	(309)	(1,100)
Deposits at the end of the period	179	1
Interest expense on deposits	1	6

(c) Transactions with members of the Council and the Board

Total remuneration included in administrative expenses:

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Members of the Council	80	65
Members of the Board	597	449
	677	514

The outstanding balances as of 30 June 2012 with members of the Council and the Board are as follows:

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Balance outstanding		
Loans to customers	601	649
Term deposits	8,300	9,770

29 Related party transactions (continued)

The amounts included in the income statement in relation to transactions with members of the Council and the Board are as follows:

	Six months ended 30 June	
	2012	2011
	'000 LVL	'000 LVL
Income statement		
Interest income	11	9
Interest expense	(334)	(148)