RIETUMU Banka AS

Condensed Interim Financial Statements

for the six month period ended

30 June 2011

Contents

Management Report

Operating Results

In the middle of June 2011, Latvia launched its first Eurobond issue since the commencement of the severe economic crises in Latvia in 2008-9. The issue size was US$ 500 million and it was 7 times oversubscribed. Investors were impressed by Latvia's turnaround and successful reforms made in the Latvian economy since the crises. Latvia's success in the capital markets, despite turmoil in the global markets, marks a significant event for Latvia and proves that Latvia and Latvia's banking system is well on its way to reintegrate in the global financial system.

For Rietumu, the first half of 2011 was also 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. Rietumu Bank has developed into 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 Bank sees itself as a bridge between East and West as many of its customers operate in Latvia, the Baltics, Western Europe, Russia and other CIS countries. The Bank has positioned itself to understand business environments in both Western and Eastern Europe.

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 internet banking, phone banking, private bankers and regional managers and 24 h customer support service. In 2011, the Bank again focused improving its service to clients with personalized solutions to wealth protection, asset management and brokerage. The Bank also expanded its range of deposit products continued to offer competitive deposits rates. In 2011, the Bank improved its foreign exchange services to customers. The Bank also increased the number of brokerage products offered to customers and launched a new fund through its subsidiary RB Asset Management.

The second part of the new iRietumu multi channel remote banking platform was launched in 2011. This platform streamlines all communication between customers and the Bank resulting in much better quality of service.

In 2011, as before, the Bank focused its lending on medium sized projects in Latvia as well as in the Baltics, Russia and CIS countries. The Bank's lending is split between corporate lending in Latvia, private lending, international lending and trade finance. In 2011, much of the focus has been on the finance of trade with the Bank financing much more of our clients' trade. The Bank leasing subsidiaries in Russia and Belarus also continued to develop. Wholesale lending to consumer finance and other non-related companies has also expanded.

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. In 2011, the Bank introduced E-commerce services to for its corporate customers allowing for payments with credit and debit cards though the internet. The bank also obtained cross-boarder acquiring licenses for Europe from VISA Europe and MasterCard Worldwide and is now able to acquire Merchants all over Europe.

In 2011, Rietumu Charity Fund continued to support charity and arts patronage, with the focus on supporting projects in medical and child care, and social sphere. In addition, the Bank launched a cultural events support program to celebrate its 20th anniversary in 2012.

Financial results

	30 June 2011 (6 months)	31 December 2010	30 June 2010 (6 months)	31 December 2009	30 June 2009 (6 months)
At period end (LVL'000)					
Total assets	1,127,998	1,116,323	997,323	981,645	1,019,244
Loans and advances to customers	510,067	535,849	532,269	490,471	534,444
Due to customers	985,296	971,004	803,944	681,521	602,891
Total shareholders' equity	130,554	137,909	136,745	132,757	134,535
For the period (LVL'000)					
Profit before income tax	3,309	4,887	2,856	9,810	8,669
Profit for the period	2,645	3,187	2,023	8,137	7,103
Net interest income	9,653	20,904	10,110	27,034	14,796
Net commission income	6,041	10,713	4,782	10,158	5,641
Capital adequacy	18.58% 18.93% *	17.82%	17.67% 17.95% *	17.39%	15.68%

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

Total Assets increased by LVL 130.7 million compared to June 2010. Deposits also significantly increased compared to June 2010 by LVL 181.4 million. In April 2011, the Bank's shareholders meeting decided that the Bank should repay LVL 10 million of legal reserve resulting in a decrease of equity. The majority of the shareholders of the Bank invested the repaid legal reserve into newly issued 10 year subordinated deposits. Other subordinated deposits also increased in 2011. This has been made easier after the Law on Immigration was amended in 2010 making it possible for foreign investors to obtain a residence permit in Latvia.

As at 30 June 2011, financial instruments valued at fair value through profit and loss were LVL 130.9 million, representing an increase of LVL 89.5 million. Of the total of LVL 130.9 million invested LVL 104 million are invested in bonds with a rating of A or better.

Compared to 30 June 2010, net fee and commission income increased by LVL 1.3 million to LVL 6.0 million due to increase of customer activity.

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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 2011, 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 2011, 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 30.

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 control as management determines is 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 control 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 control. 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 2011 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
22 August 2011

Valda Užāne
Sworn Auditor
Certificate No 4

CONDENSED INTERIM INCOME STATEMENT
For the six month period ended 30 June 2011

		Six months ended 30 June	
	Note	**2011 '000 LVL**	**2010 '000 LVL**
Interest income	7	15,923	16,371
Interest expense	7	(6,270)	(6,261)
Net interest income		**9,653**	**10,110**
Fee and commission income	8	7,622	6,129
Fee and commission expense	9	(1,581)	(1,347)
Net fee and commission income		**6,041**	**4,782**
Net gain/(loss) on financial instruments at fair value through profit or loss		(489)	295
Net foreign exchange income		4,883	4,277
Net realised gain on available-for-sale assets		-	185
Other income/(expenses)	10	(440)	3,432
Operating income		**19,648**	**23,081**
Impairment losses	11	(5,200)	(11,273)
General administrative expenses	12	(11,139)	(8,952)
Profit before income tax		**3,309**	**2,856**
Income tax expense	13	(664)	(833)
Net profit for the period		**2,645**	**2,023**

The condensed interim financial statements as set out on pages 6 to 30 are authorised for issue by:

Leonid Esterkin
Chairman of the Council

Alexander Pankov
Chairman of the Board

The accompanying notes on pages 11 to 30 are an integral part of the condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2011

	Six months ended 30 June	
	2011 **'000 LVL**	**2010** **'000 LVL**
Profit for the period	**2,645**	**2,023**
Other comprehensive income		
Changes in fair value of available-for-sale financial assets	-	191
Release of revaluation reserve of available-for-sale financial assets upon impairment recognition	-	1,774
Other comprehensive income for the period	**2,645**	**1,965**
Total comprehensive income for the period	**2,645**	**3,988**

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CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	30 June 2011 '000 LVL	31 December 2010 '000 LVL
ASSETS			
Cash and balances with the Central Bank	14	78,580	126,784
Financial instruments at fair value through profit or loss	15	130,903	41,318
Loans and receivables to banks	17	293,081	289,233
Loans and receivables to customers	18	510,067	535,849
Reverse repo	16	46,277	50,726
Available-for-sale assets	19	22,727	22,371
Held-to-maturity investments	20	736	845
Investments in subsidiaries	29	18,855	20,674
Property and equipment		4,478	4,491
Intangible assets		2,127	2,517
Investment property	21	6,460	5,861
Current tax asset		365	125
Other assets	22	13,342	15,529
Total Assets		**1,127,998**	**1,116,323**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	15	210	495
Deposits and balances from banks	23	8,806	4,271
Current accounts and deposits from customers	24	985,296	971,004
Deferred tax liability		507	507
Other liabilities	25	2,625	2,137
Total Liabilities		**997,444**	**978,414**
Share capital		100,000	100,000
Share premium		4,809	4,809
Revaluation reserve		1,754	1,754
Other reserves	30	10,016	20,016
Retained earnings		13,975	11,330
Total Shareholders' Equity		**130,554**	**137,909**
Total Liabilities and Shareholders' Equity		**1,127,998**	**1,116,323**
Commitments and Contingencies	26	60,528	61,025

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CONDENSED INTERIM STATEMENT OF CASH FLOWS

For the six month period ended 30 June 2011

	Note	**Six months ended 30 June 2011 ’000 LVL**	**Six months ended 30 June 2010 ’000 LVL**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		3,309	2,856
Amortisation and depreciation		1,050	1,048
Loss from sale of property		(2)	-
Loss from sale of subsidiary		710	-
Impairment losses		5,200	11,273
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**10,267**	**15,177**
(Increase) / decrease in loans and receivables to banks		(52,284)	23,978
Decrease/(increase) in loans and receivables to customers		20,457	(59,833)
Decrease in reverse repo		4,449	-
Decrease in available-for-sale assets		-	3
(Increase)/decrease in financial instruments at fair value through profit or loss other than derivatives		(89,585)	37,920
(Decrease)/increase in derivative liabilities		(285)	139
Decrease in other assets		2,118	4,750
Increase / (decrease) in deposits and balances from banks		472	(83,337)
Increase in current accounts and deposits from customers		14,292	122,424
Decrease in amounts payable under repurchase agreements		-	(25,007)
Increase / (decrease) in other liabilities		488	(2,140)
(Decrease)/increase in cash and cash equivalents from operating activities before corporate income tax		**(89,611)**	**34,074**
Corporate income tax (paid)/received		(904)	750
Net cash and cash equivalents used in operating activities		**(90,515)**	**34,824**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(654)	(359)
Proceeds from sale of property and equipment		7	10
Sale/(acquisition) of investments in subsidiaries		395	(5,000)
Repayment upon maturity of held-to-maturity investments		64	986
Decrease in cash and cash equivalents from investing activities		**(188)**	**(4,363)**
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease of other reserves		(10,000)	-
Decrease in borrowed funds		-	(895)
Decrease in cash and cash equivalents from financing activities		**(10,000)**	**(895)**
Net cash flow for the period		**(100,703)**	**29,566**
Cash and cash equivalents at the beginning of the period		**301,191**	**245,046**
Cash and cash equivalents at the end of the period	14	**200,488**	**274,612**

The accompanying notes on pages 11 to 30 are an integral part of the condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six month period ended 30 June 2011

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total equity '000 LVL
Balance at 1 January 2010	**100,000**	**4,809**	**1,754**	**(1,965)**	**20,016**	**8,143**	**132,757**
Total comprehensive income							
Profit for the period	-	-	-	-	-	2,023	**2023**
Changes in fair value of available-for-sale financial assets	-	-	-	191	-	-	**191**
Release of revaluation reserve of available-for-sale financial assets upon impairment recognition	-	-	-	1,774	-	-	**1777**
Total comprehensive income	**-**	**-**	**-**	**1,965**	**-**	**-**	**3,988**
Balance at 30 June 2010	**100,000**	**4,809**	**1,754**	**-**	**20,016**	**10,166**	**136,745**
Total comprehensive income	-	-	-	-	-	-	**-**
Profit for the period		-	-	-	-	1,164	**1,164**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,164**	**1,164**
Balance at 31 December 2010	**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**

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Alexander Pankov
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The accompanying notes on pages 11 to 30 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 IAS34 *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 2010. The Bank also prepares consolidated interim financial statements for the six-month period ended 30 June 2011.

The audited financial statements as at and for the year ended 31 December 2010 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 2011. 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 2010.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011. None of these has a significant effect on the condensed Group consolidated and Bank's separate interim financial statements.

- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011);
- Amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010);
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010).

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 2010.

Sensitivity of financial instruments at fair value through profir 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 2010, and therefore sensitivities of other components are not disclosed in these condensed interim financial statements.

(i) Interest rate risk

	Net income for six month period ended 30 June	
	2011	**2010**
500 bp parallel increase	1,535	-
500 bp parallel decrease	(1,535)	-

(ii) Currency risk

	Net income for six month period ended 30 June	
’000 LVL	**2011**	**2010**
5% appreciation of USD against LVL	3,672	1,755
5% depreciation of USD against LVL	(3,672)	(1,755)
5% appreciation of EUR against LVL	2,857	51
5% depreciation of EUR against LVL	(2,857)	(51)

The foreign exchange rate LVL/EUR is pegged as at 30 June 2011.

4 Risk management, continued

(iii) Price risk

	Net income for six month period ended 30 June	
’000 LVL	**2011**	**2010**
5% increase in securities prices	6,536	1,812
5% decrease in securities prices	(6,536)	(1,812)

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 2011, this minimum level is 8%. The Bank was in compliance with the statutory capital ratio during the six-month periods ended 30 June 2010 and 30 June 2011, as well as during the year ended 31 December 2010. The Bank’s risk based capital adequacy ratio, as at 30 June 2011, was 18.93% (31 December 2010: 17.82% and 30 June 2010: 17.95%)

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.

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 2010.

During the six months ended 30 June 2011 management reassessed its estimates in respect of:

- Allowances for credit losses on loans and receivables (see note 18);
- Impairment of assets shown under other assets (see note 22);
- Determining fair value of financial instruments (see note 15);
- Impairment of investments in subsidiaries (see note 29).

7 Net interest income

	Six months ended 30 June	
	2011 ’000 LVL	**2010 ’000 LVL**
Interest income		
Loans and advances due from customers	13,349	14,893
Financial instruments at fair value through profit or loss	1,681	260
Loans and advances due from financial institutions	745	1,118
Amounts receivable under repurchase agreements	113	-
Held-to-maturity investments	35	100
	15,923	**16,371**
Interest expense		
Current accounts and deposits due to customers	5,262	5,007
Deposits and balances due to financial institutions	10	555
Other	998	699
	6,270	**6,261**

8 Fee and commission income

	Six months ended 30 June	
	2011 ’000 LVL	**2010 ’000 LVL**
Money transfers	3,130	2,752
Commission income from payment cards	2,158	1,471
Revenue from customer asset management and brokerage commission	807	617
Remote system fee	301	264
Commission from account servicing	202	110
Commission from documentary operations	119	228
Cash withdrawal fees	101	86
Other	804	601
	7,622	**6,129**

9 Fee and commission expense

	Six months ended 30 June	
	2011 '000 LVL	**2010 '000 LVL**
Payment card expenses	776	494
Brokerage commissions	233	227
Correspondent accounts	163	172
Loan commissions	48	261
Cash withdrawals	4	5
Other	357	188
	1,581	**1,347**

10 Other income /(expenses)

	Six months ended 30 June	
	2011 '000 LVL	**2010 '000 LVL**
Income from operating leases	246	200
Penalties received	109	313
Dividends received	17	268
(Loss on write-off)/recovery of assets written off	(60)	1,413
Loss from sale of property	(140)	-
Loss from sale of subsidiary	(710)	-
Other (net)	98	1,238
	(440)	**3,432**

11 Impairment losses

	Six months ended 30 June	
	2011 **'000 LVL**	**2010** **'000 LVL**
Impairment losses		
Loans and advances due from customers	9,183	10,357
Held to maturity investments	104	-
Available-for-sale financial assets	-	1,774
Investment in subsidiaries and associates	2,390	-
Other assets	75	2,565
	11,752	**14,696**
Reversals of impairment losses		
Loans and advances due from customers	(4,516)	(2,710)
Investment in subsidiaries and associates	(1,675)	-
Held-to-maturity investments	-	(83)
Available-for-sale financial assets	(355)	-
Other assets	(6)	(630)
	(6,552)	**(3,423)**
Net impairment losses	**5,200**	**11,273**

12 General administrative expenses

	Six months ended 30 June	
	2011 **'000 LVL**	**2010** **'000 LVL**
Employee compensation	5,926	4,632
Occupancy/Rent	1,082	971
Depreciation and amortization	1,050	1,048
IT and inventory service	534	445
Communications and information services	372	363
Travel expenses	334	218
Advertising and marketing	330	73
Utilities and maintenance	288	299
Representative offices	194	126
Charity and sponsorship	138	152
Professional services	124	122
Representation	60	27
Other	707	476
	11,139	**8,952**

13 Income tax expense

	Six months ended 30 June 2011 '000 LVL	Six months ended 30 June 2010 '000 LVL
Current tax expense	664	1,030
Deferred tax expense	-	(197)
Total income tax expense in the income statement	**664**	**833**

The tax rate applicable to expected annual earnings is 15% (2010: 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.

(a) Tax effects relating to each component of other comprehensive income

	Six months ended 30 June					
'000 LVL	**2011**			**2010**		
	Before tax amount	**Tax (expense) / benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense) / benefit**	**Net of tax amount**
Revaluation reserve decrease (Available-for-sale financial assets)	-	-	-	1,965	-	1,965
Other comprehensive income for the period	**-**	**-**	**-**	**1,965**	**-**	**1,965**

(b) Reconciliation of effective tax rate:

	2011 '000 LVL	%	2010 '000 LVL	%
Income before tax	3,309		2,856	
Income tax at the applicable tax rate	496	15.00%	428	15.00%
Non-deductible costs	168	5.08%	405	14.18%
	664	**20.08%**	**833**	**29.18%**

14 Cash and balances with the Central Bank

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

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Cash	2,305	3,302
Balances due from the Bank of Latvia	76,275	123,482
Total	**78,580**	**126,784**

Cash and cash equivalents consist of the following:

	Six months ended 30 June	
	2011 '000 LVL	2010 '000 LVL
Cash	2,305	3,489
Balances due from the Bank of Latvia	76,275	118,339
Demand loans and receivables from banks	130,234	156,477
Demand deposits from banks	(8,326)	(3,693)
Total	**200,488**	**274,612**

15 Financial instruments at fair value through profit or loss

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Bonds		
- with rating from AAA to A	103,977	30,414
- with rating from BBB+ to B	25,960	9,941
Equity investments	518	517
Derivative financial instruments	448	446
Total assets at fair value through profit or loss	**130,903**	**41,318**
Derivative financial instruments	(210)	(495)
Total liabilities at fair value through profit or loss	**(210)**	**(495)**

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

Derivative financial assets and liabilities

	30 June 2011 ’000 LVL		31 Dec 2010 ’000 LVL	
	Carrying value	**Notional value**	**Carrying value**	**Notional value**
Assets				
Forward contracts	179	6,667	200	15,897
Option	262	-	242	-
Swap contracts	7	759	4	4
Total derivative financial assets	**448**	**-**	**446**	**-**
Liabilities				
Forward contracts	209	11,493	495	15,806
Swap contracts	1	176	-	-
Total derivative liabilities	**210**	**-**	**495**	**-**

16 Reverse repo

	30 Jun 2011 ’000 LVL	31 Dec 2010 ’000 LVL
MF Global Inc. (with rating BBB)	46,277	50,726
	46,277	**50,726**

17 Loans and receivables to banks

	30 June 2011 ’000 LVL	31 Dec 2010 ’000 LVL
Nostro accounts		
Latvian commercial banks	20,385	470
OECD banks	85,291	174,357
Non-OECD banks	24,558	3,843
Total nostro accounts	**130,234**	**178,670**
Deposits		
OECD banks	162,847	102,730
Non-OECD banks	-	7,833
Total	**162,847**	**110,563**
	293,081	**289,233**

17 Loans and receivables to banks

Concentration of placements with banks and other financial institutions

As at 30 June 2011 and 31 December 2010, the Bank had balances with one and one bank and financial institution, respectively, which exceeded 10% of the total placements with banks and other financial institutions. The gross value of these balances was accordingly LVL 36,681 and LVL 37,450 thousand.

18 Loans and receivables to customers

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Private companies	493,968	515,775
Individuals	56,524	56,479
Specific impairment allowance	(40,424)	(36,329)
Collective impairment allowance	(1)	(76)
Net loans and advances to customers	**510,067**	**535,849**

(a) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

			Of which past due by the following terms				
As at 30 June 2011	**Total LVL'000**	**Of which not past due on the reporting date**	**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying value of overdue loans**
Net carrying amount	**510,067**	412,711	54,608	28,088	2,079	12,581	97,356
Out of which impaired	**78,702**	59,610	1,884	5,307	1,679	10,222	19,092
Assessed fair value of collateral	**656,709**	507,851	69,827	51,949	1,116	25,966	148,858
As at 31 December 2010							
Net carrying amount	**535,849**	423,114	59,447	40,376	4,998	7,914	112,735
Out of which impaired	**61,462**	28,763	17,996	3,854	4,859	5,990	32,699
Assessed fair value of collateral	**727,232**	582,215	63,713	57,890	7,776	15,638	145,017

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 advances 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 2011 and 31 December 2010:

LVL'000	30 June 2011	% of loan portfolio	31 December 2010	% of loan portfolio
Commercial buildings	200,646	39.34	207,136	38.66
Traded securities	73,078	14.33	109,621	20.46
Land mortgage	48,567	9.52	54,110	10.10
Mortgage on residential properties	31,477	6.17	30,302	5.65
Commercial assets pledge	70,696	13.86	75,196	14.03
Debt securities classified as loans	17,726	3.48	17,830	3.33
Deposit	1,535	0.30	3,334	0.62
Guarantee	5,942	1.16	2,771	0.52
Other	60,400	11.84	35,549	6.63
Total	**510,067**	**100**	**535,849**	**100**

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 2011			31 Dec 2010		
	Gross ’000 LVL	Specific impairment allowance	Collective impairment allowance	Gross ’000 LVL	Specific impairment allowance	Collective impairment allowance
Standard	463,715	(1,606)	(1)	474,564	(101)	(76)
Watch	41,181	(8,038)	-	44,783	(5,899)	-
Substandard	21,906	(10,284)	-	25,384	(10,286)	-
Doubtful	19,447	(16,253)	-	25,399	(17,928)	-
Lost	4,243	(4,243)	-	2,124	(2,115)	-
Total	**550,492**	**(40,424)**	**(1)**	**572,254**	**(36,329)**	**(76)**

18 Loans and advances due from customers (continued)

(iv) Movements in the impairment allowances

	Jan – June 2011 '000 LVL	July – Dec 2010 '000 LVL	Jan – June 2010 '000 LVL
Specific allowance for impairment			
Balance at the beginning of the period	**36,405**	**29,759**	**26,055**
Charge for the period	9,183	7,439	10,357
Reversal of impairment loss	(4,516)	(2,135)	(2,710)
Effect of currency exchange translation	(322)	(455)	412
Write offs	(325)	1,797	(4,355)
Balance at the end of the period	**40,425**	**36,405**	**29,759**

(v) Restructured loans

As at 30 June 2011, the Bank held restructured loans of LVL 129,710 thousand (2010: 144,872). Main forms of restructuring were reducing of interest rate, postponing of interest payments or principal payments.

(b) Industry analysis of the loan portfolio

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Financial services	219,398	229,112
Real estate management	135,273	136,985
Individuals	49,276	49,553
Wholesale and retailing	28,696	28,674
Manufacturing	15,887	23,500
Food industry	7,377	7,617
Transport and communication	6,474	8,591
Tourism	6,162	8,535
Other	23,798	25,452
Financial instruments classified as loans and receivables	17,726	17,830
	510,067	**535,849**

18 Loans and advances due from customers (continued)

(c) Geographical analysis of the loan portfolio

	30 June 2011			31 Dec 2010		
	Gross value ’000 LVL	**Impairment ’000 LVL**	**Net value ’000 LVL**	**Gross value ’000 LVL**	**Impairment ’000 LVL**	**Net value ’000 LVL**
Latvia	233,994	(20,823)	213,171	242,035	(18,487)	223,548
OECD countries	99,291	(1,812)	97,480	102,993	(1,826)	101,167
Non-OECD countries	217,207	(17,790)	199,416	227,226	(16,092)	211,134
	550,492	**(40,425)**	**510,067**	**572,254**	**(36,405)**	**535,849**

(d) 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 2010 and 30 June 2011 the Bank was in compliance with this requirement.

19 Available-for-sale assets

	30 June 2011 ’000 LVL	**31 Dec 2010 ’000 LVL**
Equity investments		
RB Opportunity Fund I	24,598	24,599
Corporate shares	170	168
Impairment allowance	(2,041)	(2,396)
	22,727	**22,371**

The Bank holds all units of the RB Opportunity Fund. The underlying assets comprise mainly real estate and cash in the Bank.

20 Held-to-maturity investments

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Government and municipal bonds		
Argentina government bonds (with rating B)	840	845
Total government and municipal bonds	**840**	**845**
Impairment allowance	(104)	-
Total held-to-maturity investments	**736**	**845**

Analysis of movements in the impairment allowance

	Six months ended 30 June 2011 '000 LVL	12 months ended 31 December 2010 '000 LVL
Balance at the beginning of the year	**-**	**1,078**
Net charge/(recovery) for the year	104	(83)
Derecognition as a result of restructuring	-	(1,037)
Currency revaluation	-	42
Balance at the end of the year	**104**	**-**

21 Investment property

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Balance at 1 January	**5,861**	**5,803**
Addition	599	173
Revaluation	-	(115)
Balance at the end of the period	**6,460**	**5,861**

22 Other assets

(a) Other assets

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Collateral assumed on non performing loans	9,306	14,321
Guarantee receivable from borrower	2,485	2,078
Prepayments	1,485	912
Other	1,216	2,046
Impairment allowance on collateral assumed	(1,150)	(3,828)
	13,342	**15,529**

22 Other assets (continued)

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

	Six months ended 30 June 2011 '000 LVL	12 months ended 31 Dec 2010 '000 LVL
Balance at the beginning of the year	14,321	17,942
Transfer from Loans and receivables	-	7,600
Reclassified to other assets	407	(2,078)
Sale of collateral completed	(5,422)	(9,143)
Balance at the end of the year	**9,306**	**14,321**

(c) Analysis of movements in the impairment allowance

	Jan – June 2011 '000 LVL	July – Dec 2010 '000 LVL	Jan – June 2010 '000 LVL
Balance at the beginning of the year	**3,828**	**3,829**	**2,433**
Net charge for the year	69	11	2,565
Net recovery for the year	-	(160)	(630)
Write-offs	(2,747)	171	(562)
Currency revaluation	-	(23)	23
Balance at the end of the year	**1,150**	**3,828**	**3,829**

23 Deposits and balances from banks

	30 June 2011 '000 LVL	31 Dec 2010 '000 LVL
Vostro accounts	8,326	4,263
Term deposits	480	8
	8,806	**4,271**

Concentration of deposits and balances from banks and other financial institutions

At 31 December 2010 the Bank had no balances and at 30 June 2011 had balances with one bank, which exceeded 10% of the total deposits and balances from banks. The gross value of these balances as of 30 June 2011 was LVL 919 thousand.

24 Current accounts and deposits from customers

	30 June 2011 **'000 LVL**	**31 Dec 2010** **'000 LVL**
Current accounts and demand deposits		
- Central government	-	69
- Private companies residents	37,525	28,245
- Individuals residents	33,023	28,168
-Government – non-residents	79	-
- Private companies non-residents	544,839	553,089
- Individuals non-residents	70,664	65,409
Total current account and demand deposits	**686,130**	**674,980**
Term deposits		
- Private companies residents	6,033	10,567
- Individuals residents	40,718	38,331
- Private companies non-residents	183,884	199,318
- Individuals non-residents	36,176	34,430
Subordinated deposits		
- Individuals	15,173	3,013
- Private companies non-residents	5,277	1,051
- Individuals non-residents	11,905	9,314
Total term deposits	**299,166**	**296,024**
Total current accounts and deposits due to customers	**985,296**	**971,004**

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 2011 and 31 December 2010, the Bank maintained customer deposit balances of LVL 6,097 and LVL 8,592 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 2011 and 31 December 2010, the Bank had no customers, whose balances exceeded 10% of total customer accounts.

25 Other liabilities

	30 June 2011 ’000 LVL	31 Dec 2010 ’000 LVL
Accrual for annual leave	703	661
Accrued liability for Deposits Guarantee Fund	429	296
Accrual for management bonus	294	382
Social tax	261	-
Personal income taxes payable	156	-
Deferred income	113	45
VAT liability	69	61
Accrued administrative expenses	59	56
Accrued liability for supervisory institution (FCMC)	46	37
Dividends payable	4	4
Other	491	595
Total other liabilities	**2,625**	**2,137**

26 Commitments and contingencies

	30 June 2011 ’000 LVL	31 Dec 2010 ’000 LVL
Loan and credit line commitments	37,293	37,439
Guarantees and letters of credit	14,577	12,322
Undrawn overdraft facilities	3,041	6,978
Credit card commitments	5,617	4,286
Total Commitments and contingencies	**60,528**	**61,025**

27 Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. As at 30 June 2011 there were 17 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 3,022 thousand. Provisions are made for where management based on the professional advice to the Bank considers that it is likely that loss may eventuate. No new provisions were made in 2011. The provisions previously created were released due to change in evidence available to management.

28 Related party transactions

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have signioficant influence over the Bank, companies in which they have 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 2011 ’000 LVL**	**12 months 2010 ’000 LVL**
Loans and receivables at the beginning of the year	662	624
Loans issued during the year	-	12
Due to changes in the structure of related parties	39	167
Forex translation effect	(2)	-
Loan repayment during the year	(50)	(141)
Loans and receivables at the end of the period	**649**	**662**
Interest income earned	11	22

Deposits	**6 months 2011 ’000 LVL**	**12 months 2010 ’000 LVL**
Deposits at the beginning of the year	4,396	3,722
Deposits received during the year	7,219	4,961
Forex translation effect	(10)	-
Deposits repaid during the year	(1,835)	(4,287)
Deposits at the end of the period	**9,770**	**4,396**
Interest expense on deposits	237	372

28 Related party transactions (continued)

(b) Subsidiaries

Loans and receivables:	**6 months 2011 ’000 LVL**	**12 months 2010 ’000 LVL**
Loans and receivables at the beginning of the year	52,139	54,722
Loans issued during the year	74,191	130,540
Forex translation effect	(623)	1,651
Loan repayment during the year	(70,663)	(134,774)
Loans and receivables at the end of the year	**55,044**	**52,139**
Interest income earned	1,445	3,400

Deposits	**6 months 2011 ’000 LVL**	**12 months 2010 ’000 LVL**
Deposits at the beginning of the year	1	1,147
Deposits received during the year	1,100	235
Forex translation effect	-	(1)
Deposits repaid during the year	(600)	(1,380)
Deposits at the end of the year	**501**	**1**
Interest expense on deposits	3	3

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

Total remuneration included in employee compensation:

	Six months ended 30 June	
	2011 ’000 LVL	**2010 ’000 LVL**
Members of the Council	65	65
Members of the Board	449	85
	514	**150**

The outstanding balances and average interest rates as of 30 June 2011 with members of the Council and the Board are as follows:

	Six months ended 30 June	
	2011 ’000 LVL	**2010 ’000 LVL**
Balance outstanding		
Loans to customers	649	681
Term deposits	9,770	3,986

28 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	
	2011	**2010**
	’000 LVL	**’000 LVL**
Income statement		
Interest income	9	157
Interest expense	(148)	(7)

In the first half of 2011, average annual interest rate for loans to related parties was 5% and average annual interest rate for deposits 6% (Term deposits 6% and subordinated deposits 9.75%). Accordingly, average annual interest rate for loans to shareholders, members of council and board was 3% and average annual interest rate for deposits to shareholders, members of council and board was 8% (term deposits 7% and subordinated deposits_8%), and average annual interest rate for loans to subsidiaries and associate companies was 5% and average annual interest rate for deposits 1%.

29 Investments in subsidiaries

On 3 February 2011, the Bank signed a Share Purchase Agreement to sell 100% shares of AS RB Securities IBS to a third party. On May 31, 2011, the deal was completed.

	30 June 2011	**31 Dec 2010**
	’000 LVL	**’000 LVL**
Gross investments in subsidiaries	22,245	23,349
Impairment losses	(3,390)	(2,675)
Net Investments in subsidiaraies	**18,855**	**20,674**

Movements in the impairment allowances

	30 June 2011	**31 Dec 2010**
	’000 LVL	**’000 LVL**
Allowance for impairment		
Balance at the beginning of the period	2,675	500
Charge for the period	2,390	2,175
Reversal of impairment loss	(1,000)	-
Sale of subsidiary	(675)	-
Balance at the end of period	**3,390**	**2, 675**

30 Other reserves

In the past, shareholders contributed to other reserves of LVL 20,016 thousand and its use or distribution is at the discretion of the shareholders. During the reporting period, shareholders decided to reduce those reserves for LVL 10,000 thousand. Part of those reserves in the amount of LVL 6,831 thousand returned from existing shareholders as subordinated deposits.