

RIETUMU Banka AS

Condensed Interim Financial
Statements

for the six month period ended

30 June 2010

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Management Report

Operating Results

In the first half-year of 2010 Rietumu maintained the leading position in the Latvian banking sector in terms of profitability and efficiency, despite the continuing crisis influence on the Latvian economy.

Implementing the strategy of expansion targeted at providing high-class banking services to corporate and high-net-worth private customers in Russia, Belarus as well as CIS and European countries, Rietumu acquired 100% stake in Parex Leasing, the subsidiary of Parex bank located in Belarus. The bank also extended its leasing services and continued to finance new projects in manufacturing and construction industries, transport and agriculture, trade and food industries, etc.

Alongside with the ongoing international development, accreditation of Rietumu representative office in Minsk, the capital of Belarus, was once again extended for the following three years.

In the second quarter Rietumu paid off the last syndicated loan in the amount of EUR 120 million attracted in June 2007 for corporate lending purposes. At present, the bank has no syndicated loan obligations.

Considering indications of growth of international trade and increased demand for financing of export-import operations among customers, Rietumu continued to expand the range of trade finance services. The bank also started to offer term deposits in Russian rubles.

New services were introduced within the bank's technology development programme – outgoing payments and deposit placement over the phone using the bank's new customer identification system Rietumu ID. Rietumu ID now also enables customers to execute a variety of banking operations – to credit card accounts, investment and savings accounts, monitor securities deals, etc. The service is available almost round-the-clock.

In the first quarter a number of changes were made in Rietumu Bank's shareholders and management structure. Mr. Balram Chainrai, a well-known British businessman from Hong Kong, became the shareholder of Rietumu, having acquired a 5% stake in the bank. In spring, Mr. Alexander Gafin, an accomplished public relations and financial marketing executive from Russia, also entered the bank's Council.

Rietumu Bank's Charity Fund continued to review and support social projects – in child- and healthcare, arts and culture, education and sports. For instance, the Fund financed renovation of P.Jurjans Music School building, sponsored an award of Latvian Union of Journalists for professional achievements in business journalism, the 27th Riga Cycling Marathon, supported annual awards of best nurses of Riga Children's University Hospital and other significant projects.

Financial results

	30 June 2010 (6 months)	31 December 2009	30 June 2009 (6 months)	31 December 2008	30 June 2008 (6 months)
At period end (LVL'000)					
Total assets	997,323	981,645	1,019,244	1,117,276	1,133,384
Loans and advances to customers	532,269	490,471	534,444	571,057	603,631
Due to customers	803,944	681,521	602,891	670,611	763,060
Total shareholder's equity	136,745	132,757	134,535	132,497	125,610
For the period (LVL'000)					
Profit before income tax	2,856	9,810	8,669	23,411	13,881
Profit for the period	2,023	8,137	7,103	20,494	12,175
Operating income	23,081	50,716	26,483	67,750	30,328
Capital adequacy	17.67% 17.95% ¹	17.39%	15.68%	14.72%	13.99%

¹ - Capital adequacy rate, including profit for 6 months (upon receiving the Financial and Capital Market Commission permission)



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Independent Auditors' Report

To the Shareholders of RIETUMU Banka AS

We have audited the accompanying condensed interim financial information of Rietumu Banka AS, which comprises the condensed interim statement of financial position as at 30 June 2010, the related condensed interim income statement and condensed interim statements of comprehensive income, changes in shareholders' equity and cash flows for the six month period ended 30 June 2010, and notes to the condensed interim financial statements, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 6 to 28.

Management's Responsibility for the Financial information

Management is responsible for the preparation and fair presentation of this interim condensed 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 interim financial information is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the interim financial information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the 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 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 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 Rietumu Banka AS as at and for the six month period ended 30 June 2010 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

KPMG Baltics SIA
Licence Nr. 55



Stephen Young
Chairman of the Board
Riga, Latvia
23 August 2010



Valda Užāne
Sworn Auditor
Certificate No. 4

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

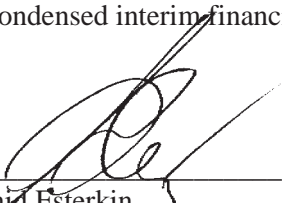
CONDENSED INTERIM INCOME STATEMENT

For the six month period ended 30 June 2010

	Note	Six months ended 30 June	
		2010 '000 LVL	2009 '000 LVL
Interest income	7	15,575	21,995
Interest expense	7	(6,261)	(7,199)
Net interest income		9,314	14,796
Fee and commission income	8	6,925	7,224
Fee and commission expense	9	(1,347)	(1,583)
Net fee and commission income		5,578	5,641
Net gain/(loss) on financial instruments at fair value through profit or loss		295	60
Net foreign exchange income		4,277	4,025
Net realised gain/(loss) on available-for-sale assets		185	3
Other income/(expenses), net	10	3,432	1,958
Operating income		23,081	26,483
Impairment losses	11	(11,273)	(8,321)
General administrative expenses		(8,952)	(9,493)
Profit before income tax		2,856	8,669
Income tax expense	12	(833)	(1,566)
Profit for the period		2,023	7,103

The accompanying notes on pages 11 to 28 are an integral part of the condensed consolidated interim financial statements.

The condensed interim financial statements as set out on pages 6 to 28 are authorised for issue by:



 Leonid Esterkin
 Chairman of the Council



 Alexander Kalinovski
 Chairman of the Board

**CONDENSED INTERIM STATEMENT OF
COMPREHENSIVE INCOME**

For the six month period ended 30 June 2010


	Note	Six months ended 30 June	
		2010	2009
		'000 LVL	'000 LVL
Profit for the period		2,023	7,103
Other comprehensive income			
Changes in fair value of available-for-sale financial assets	17	191	129
Release of revaluation reserve of available-for-sale financial assets upon impairment recognition	17	1,774	-
Income tax related to components of other comprehensive income	12	-	(19)
Other comprehensive income for the period		1,965	110
Total comprehensive income for the period		3,988	7,213

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The condensed interim financial statements as set out on pages 6 to 28 are authorised for issue by:



Leonid Esterkin
Chairman of the Council



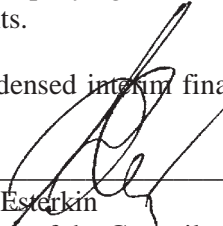
Alexander Kalinovski
Chairman of the Board


**CONDENSED INTERIM STATEMENT OF
 FINANCIAL POSITION**

	Note	30 June 2010 '000 LVL	31 December 2009 '000 LVL
ASSETS			
Cash and Due from Central Bank	13	121,828	38,980
Financial instruments at fair value through profit or loss	14	36,460	74,199
Loans and advances due from financial institutions	15	223,130	299,933
Loans and advances due from customers	16	532,269	490,471
Available-for-sale financial assets	17	22,974	22,786
Held-to-maturity investments	18	4,482	5,385
Investments in associates and subsidiaries	28	20,997	15,997
Property and equipment		4,921	5,376
Intangible assets		2,620	2,738
Investment property	19	5,777	5,803
Current tax asset		23	1,803
Other assets	20	21,842	18,174
Total Assets		997,323	981,645
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	14	675	356
Deposits and balances due to financial institutions	21	4,980	87,860
Current accounts and deposits due to customers	22	803,944	681,521
Amounts payable under repurchase agreements	14,16	47,984	72,990
Provisions	26	448	382
Other borrowed funds	23	-	895
Deferred tax liability		310	507
Other liabilities	24	2,237	4,377
Total Liabilities		860,578	848,888
Share capital		100,000	100,000
Share premium		4,809	4,809
Revaluation reserve – property		1,754	1,754
Revaluation reserve – available for sale financial assets		-	(1,965)
Other reserves		20,016	20,016
Retained earnings		10,166	8,143
Total Shareholders' Equity		136,745	132,757
Total Liabilities and Shareholders' Equity		997,323	981,645
Commitments and Contingencies	25	47,169	55,898

The accompanying notes on pages 11 to 28 are an integral part of the condensed interim financial statements.

The condensed interim financial statements as set out on pages 6 to 28 are authorised for issue by:


 Leonid Esterkin
 Chairman of the Council


 Alexander Kalinovski
 Chairman of the Board

CONDENSED INTERIM STATEMENT OF CASH FLOW

For the six month period ended 30 June 2010

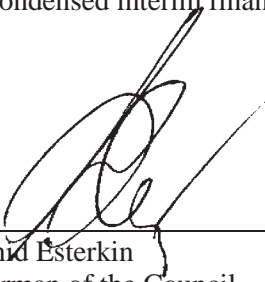
		Six months ended 30 June	
		2010	2009
		'000 LVL	'000 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
		2,856	8,669
	Profit before income tax		
	Amortisation and depreciation	1,048	1,063
	Increase / (release) provisions	-	4
	Impairment losses (recoveries)	11,273	8,321
	Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	15,177	18,057
	(Increase) / decrease in loans due from financial institutions	23,978	(39,599)
	(Increase) / decrease in loans due from customers and receivables	(59,833)	28,488
	(Increase) decrease in available-for-sale financial assets	3	(6,993)
	(Increase) in assets and liabilities at fair value through profit or loss	38,059	28,694
	Decrease in other assets	4,750	27,519
	Increase / (decrease) in balances due to credit institutions	(83,337)	(5,274)
	(Decrease) in balances due to customers	122,424	(67,720)
	Increase / (decrease) in amounts payable under repurchase agreements	(25,007)	(25,163)
	Increase / (decrease) in other liabilities	(2,140)	(2,533)
	Decrease in cash and cash equivalents from operating activities before corporate income tax	34,074	(44,524)
	Corporate income tax received	750	185
	Net cash and cash equivalents used in operating activities	34,824	(44,339)
CASH FLOW FROM INVESTING ACTIVITIES			
	Purchase of property and equipment and intangible assets	(359)	(426)
	Proceeds from property and equipment	10	287
	Acquisition of equity investments in other entities and subsidiaries	(5,000)	(300)
	Increase in investment property	-	(63)
	Repayment upon maturity of held-to-maturity investments	986	15,915
	Increase in cash and cash equivalents from investing activities	(4,363)	15,413
CASH FLOW FROM FINANCING ACTIVITIES			
	(Decrease) / increase in borrowed funds	(895)	(394)
	Dividends paid	-	(5,175)
	Decrease in cash and cash equivalents from financing activities	(895)	(5,569)
	Net cash flow for the period	29,566	(34,495)
	Cash and cash equivalents at the beginning of the period	245,046	270,809
13			
	Cash and cash equivalents at the end of the period	274,612	236,314
13			

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six month period ended 30 June 2010

	Share capital	Share premium	Revaluation reserve	Revaluation reserve – AFS financial assets	Other reserves	Retained earnings	Total equity
	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Balance at 1 January 2009	22,500	4,809	1,835	-	16	103,337	132,497
Dividends paid	-	-	-	-	-	(5,175)	(5,175)
Total comprehensive income	-	-	-	110	-	7,103	7,213
Balance at 30 June 2009	22,500	4,809	1,835	110	16	105,265	134,535
Dividends paid	-	-	-	-	-	(98,156)	(98,156)
Increase in share capital	77,500	-	-	-	-	-	77,500
Increase in reserve capital	-	-	-	-	20,000	-	20,000
Total comprehensive income	-	-	(81)	(2,075)	-	1,034	(1,122)
Balance at 31 December 2009	100,000	4,809	1,754	(1,965)	20,016	8,143	132,757
Total comprehensive income	-	-	-	1,965	-	2,023	3,988
Balance at 30 June 2010	100,000	4,809	1,754	-	20,016	10,166	136,745

The accompanying notes on pages 11 to 28 are an integral part of the condensed interim financial statements

The condensed interim financial statements as set out on pages 6 to 28 are authorised for issue by:



Leonid Esterkin
Chairman of the Council



Alexander Kalinovsky
Chairman of the Board

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 2009. The Bank also prepares consolidated condensed interim financial statements for the six-month period ended 30 June 2010.

The Shareholders Meeting approved the condensed interim financial statements for issue on 23 August 2010.

(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 2009.

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

New standards and interpretations

The following new standards, amendments to standards and interpretations as adopted by European Union are mandatory for the first time for the financial year beginning 1 January 2010, but are not relevant for these condensed interim separate financial statements:

- Revised IFRS 3 *Business Combinations*
- Amended IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- *IFRS 2 Share based payments*
- *IFRIC 12 Service Concession Agreements*
- *IFRIC 15 Agreements for the Construction of Real Estate*

3 Significant accounting policies (continued)

New standards and interpretations (continued)

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual period beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Bank's financial statements as the Bank has not issued such instruments at any time in the past.
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*. The Amendment to IFRS 1 is not relevant to the Bank's financial statements as the Bank is not a first time adopter.
- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011). Revised IAS 24 is not relevant to the Bank's financial statements as the Bank is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.
- 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). The amendments to IFRIC 14 is not relevant to the Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirements.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). The Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Bank's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

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 2009.

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 2010, this minimum level is 8%. The Bank was in compliance with the statutory capital ratio at 30 June 2009, 31 December 2009 and 30 June 2010. The Bank’s risk based capital adequacy ratio, as at 30 June 2010, was 17.67% (31 December 2009: 17.39% and 30 June 2009: 15.68%)

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 2009.

During the six months ended 30 June 2010 management reassessed its estimates in respect of:

- Impairment allowance for loans and advance due from customers (see note 16);
- Impairment of available for sale financial instruments (see note 17);
- Impairment of held to maturity financial instruments (see note 18);
- Recoverable amount of collateral assumed on non-performing loans (see note 20);
- Contingent fee on acquisition of subsidiary (see note 28).

7 Net interest income

	Six months ended 30 June	
	2010	2009
	'000 LVL	'000 LVL
Interest income		
Loans and advances due from customers	14,097	19,599
Loans and advances due from financial institutions	1,118	1,546
Financial instruments at fair value through profit or loss	260	558
Held-to-maturity investments	100	292
	15,575	21,995
Interest expense		
Current accounts and deposits due to customers	5,007	4,039
Deposits and balances due to financial institutions	555	2,461
Other	699	699
	6,261	7,199

8 Fee and commission income

	Six months ended 30 June	
	2010	2009
	'000 LVL	'000 LVL
Money transfers	2,752	3,715
Commission income from payment cards	1,471	1,478
Commission from loans	796	646
Trust, custodian and other fiduciary services fees	617	363
Guarantee and letter of credit issuance fees	228	187
Commission from account servicing	110	302
Cash withdrawals fees	86	117
Other	865	416
	6,925	7,224

9 Fee and commission expense

	Six months ended 30 June	
	2010	2009
	'000 LVL	'000 LVL
Payment card expenses	494	461
Loan's commissions	261	625
Brokerage commissions	227	99
Correspondent accounts	172	234
Other	193	164
	1,347	1,583

10 Other income /(expenses)

	Six months ended 30 June	
	2010 '000 LVL	2009 '000 LVL
Dividends received	268	311
Penalties received	313	74
Profit from sale of property	-	(5)
Income from operating lease	200	179
Recovery of assets written off	1,413	84
Other	1,238	1,315
	3,432	1,958

Other income includes a release of a liability of LVL 1,180 thousand (2009: LVL 1,181 thousand) for which there is evidence that no obligation is outstanding at reporting date.

11 Impairment losses

	Six months ended 30 June	
	2010 '000 LVL	2009 '000 LVL
Impairment losses		
Loans and advances due from customers	10,357	9,510
Available-for-sale financial assets	1,774	-
Other assets	2,565	271
	14,696	9,781
Reversals of impairment losses		
Loans and advances due from customers	(2,710)	(1,385)
Held-to-maturity investments	(83)	(75)
Other assets	(630)	-
	(3,423)	(1,460)
Net impairment losses	11,273	8,321

12 Income tax expense

	Six months ended 30 June	
	2010 '000 LVL	2009 '000 LVL
Current tax expense	1,030	1,365
Deferred tax expense	(197)	201
Total income tax expense in the income statement	833	1,566

The tax rate applicable to expected annual earnings is 15% (2009: 15%). The difference between the applicable tax rate and effective tax rate is caused mainly due to tax non-deductible expenses, tax-exempt income, effect on different tax rates abroad and tax relief on donations.

12 Income tax expense (continued)

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

'000 LVL	Six months ended 30 June					
	2010			2009		
	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	129	(19)	110
Other comprehensive income for the period	1,965	-	1,965	129	(19)	110

(b) Reconciliation of effective tax rate:

	2010		2009	
	'000 LVL	%	'000 LVL	%
Income before tax	2,856	-	8,669	-
Income tax at the applicable tax rate	428	15.00%	1,300	15.00%
Non-deductible costs/(non- taxable income)	405	14.18%	266	3.07%
	833	29.18%	1,566	18.07%

13 Cash and cash equivalents

a) Cash and Due from the Central Bank consist of the following

	30 June 2010 '000 LVL	31 Dec 2009 '000 LVL
Cash	3,489	3,718
Balances due from the Bank of Latvia	118,339	35,262
Total	121,828	38,980

b) Cash and cash equivalents consist of the following:

	30 June 2010 '000 LVL	30 June 2009 '000 LVL
Cash	3,489	3,496
Balances due from the Bank of Latvia	118,339	39,724
Demand Loans and receivables from banks	156,477	196,352
Demand deposits from banks	(3,693)	(3,258)
Total	274,612	236,314

14 Financial instruments at fair value through profit or loss

	30 June 2010 '000 LVL	31 Dec 2009 '000 LVL
European Union (Greek Government)	1,018	-
US government bonds	34,503	72,976
Corporate shares	591	493
Derivative assets	348	730
	36,460	74,199
Derivative liabilities	(675)	(356)
	(675)	(356)
<i>Pledged under sale and repurchase agreements</i>		
Amount payable under repurchase agreement	34,509	72,990
Assets pledged under repurchase agreements	34,503	72,976

Derivative financial assets and liabilities

	30 June 2010 '000 LVL		31 Dec 2009 '000 LVL	
	Carrying value	Notional value	Carrying value	Notional value
Assets				
Forward contracts	139	15,820	459	75,643
Option premium	193	193	63	63
Swap contracts	16	16	208	208
Total derivative financial assets	348	-	730	-
Liabilities				
Forward contracts	83	15,765	4	4
Swap contracts	592	592	352	75,529
Total derivative liabilities	675	-	356	-

15 Loans and advances due from financial institutions

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Nostro accounts		
Latvian commercial banks	8,707	22,344
OECD banks	143,038	177,254
Non-OECD banks	4,732	9,704
Total nostro accounts	156,477	209,302
Deposits		
Latvian commercial banks	-	10,664
OECD banks	63,030	76,832
Non-OECD banks	3,623	3,135
Total	66,653	90,631
	223,130	299,933

Concentration of placements with banks and other financial institutions

As at 30 June 2010 and 31 December 2009, the Bank had balances with three and four banks and financial institutions, respectively, which exceeded 10% of the total placements with banks and other financial institutions. The gross value of these balances as of 30 June 2010 and 31 December 2009 were LVL 80,220 thousand and LVL 106,966 thousand, respectively.

16 Loans and advances due from customers

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Commercial loans		
Private companies	509,854	463,148
Individuals	52,174	53,378
Specific impairment allowances	(28,400)	(25,035)
Collective impairment allowances	(1,359)	(1,020)
Net loans and advances to customers	532,269	490,471

16 Loans and advances due from customers (continued)

(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 2010							
Net carrying amount	532,269	434,988	79,839	12,012	2,751	2,679	97,281
Out of which impaired	50,239	39,726	3,986	1,459	2,522	2,546	10,513
Assessed fair value of collateral	701,370	562,258	117,544	9,516	3,867	8,185	139,112
As at 31 December 2009							
Net carrying amount	490,471	421,586	54,542	8,065	1,486	4,792	68,885
Out of which impaired	52,268	41,450	1,615	3,378	1,363	4,462	10,818
Assessed fair value of collateral	652,871	538,832	95,758	7,395	2,160	8,726	114,039

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

(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 2010 and 31 December 2009:

	LVL'000	30 June 2010	% of loan portfolio	31 December 2009	% of loan portfolio
Commercial buildings		224,027	42.09	207,371	42.24
Commercial assets pledge		89,098	16.74	105,106	21.51
Traded securities		84,463	15.87	33,252	6.77
Land mortgage		57,608	10.83	64,039	13.04
Mortgage on residential properties		32,538	6.11	31,492	6.41
Debt securities classified as loans		18,258	3.43	22,709	4.63
Guarantee		1,740	0.33	1,651	0.34
Deposit		1,398	0.26	2,359	0.48
Other		23,139	4.34	22,492	4.58
Total		532,269	100	490,471	100

16 Loans and advances due from customers (continued)

(iii) *Loan categories*

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

	30 June 2010			31 Dec 2009		
	Gross '000 LVL	Specific impairment allowance	Collective impairment allowance	Gross '000 LVL	Specific impairment allowance	Collective impairment allowance
Standard	489,924	(594)	(1,359)	440,136	(137)	(1,020)
Watch	24,144	(3,282)	-	40,621	(7,377)	-
Substandard	28,020	(10,293)	-	31,298	(14,385)	-
Doubtful	19,665	(13,956)	-	4,248	(2,913)	-
Lost	275	(275)	-	223	(223)	-
Total	562,028	(28,400)	(1,359)	516,526	(25,035)	(1,020)

(iv) *Restructured loans*

During the six months period ended 30 June 2010, the Bank restructured loans in the total amount of:

LVL'000	Six months ended 30 June	
	2010 '000 LVL	2009 '000 LVL
Principal payments waiver	111,975	86,637
Interest waiver	35,681	26,418
Interest capitalized	31,478	5,697
Total	179,134	118,752

(v) *Movements in the impairment allowances*

	Six months ended 30 June 2010	12 months ended 31 Dec 2009
	'000 LVL	'000 LVL
Specific allowance for impairment		
Balance at 1 January	26,055	18,317
Charge for the period	10,357	21,580
Reversal of impairment loss	(2,710)	(2,267)
Effect of currency exchange translation	412	(65)
Write offs	(4,355)	(11,510)
Balance at the end of period	29,759	26,055

16 Loans and advances due from customers (continued)

(b) Industry analysis of the loan portfolio

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Financial services	228,201	167,988
Real estate management	128,664	137,954
Individuals	45,365	47,298
Manufacturing	38,461	35,896
Wholesale and retailing	26,773	23,792
Debt securities classified as loans	18,258	22,709
Transport and communication	16,903	14,951
Tourism	9,096	1,225
Food industry	7,669	17,518
Other	12,879	21,140
	532,269	490,471

(c) Debt securities classified as loans, pledged under repurchase agreements

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Amount payable under repurchase agreement, at amortised cost	13,475	-
Assets pledged under repurchase agreements	15,095	-

(d) Geographical analysis of the loan portfolio

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Latvia	230,409	238,781
OECD countries	45,036	58,735
Non-OECD countries	256,824	192,955
	532,269	490,471

(e) 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 2009 and 30 June 2010 the Bank was in compliance with this requirement.

17 Available-for-sale financial assets

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Equity investments		
RB Opportunity Fund I	24,599	24,599
Corporate shares	149	152
Impairment allowance	(1,774)	-
Revaluation reserve	-	(1,965)
	22,974	22,786

Analysis of movements in the impairment allowance

	Six months ended	12 months ended
	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Balance at the beginning of the year	-	-
Net charge/(recovery) for the period	1,774	-
Balance at the end of the period	1,774	-

The Bank holds all units of the RB Opportunity Fund. The underlying assets of the Fund comprise mainly real estate and cash in the bank. The units were valued at market price as at 30 June 2010 and 31 December 2009, and were below the acquisition cost. As at 30 June 2010, the Company evaluated the decline in market price as prolonged and recognized an impairment loss of LVL 1,774 thousand in the income statement.

18 Held-to-maturity investments

	30 June 2010 '000 LVL	31 Dec 2009 '000 LVL
Government and municipal bonds		
Latvia	-	1,517
Other	701	1,719
Total government and municipal bonds	701	3,236
Impairment allowance	-	(1,078)
Net government and municipal bonds	701	2,158
Corporate bonds		
Russian corporate bonds	910	777
EU corporate bonds	2,871	2,450
Total corporate bonds	3,781	3,227
Total held-to-maturity investments	4,482	5,385

Analysis of movements in the impairment allowance

	30 June 2010 '000 LVL	31 Dec 2009 '000 LVL
Balance at the beginning of the year	1,078	1,593
Net recovery for the year	(83)	(495)
Derecognition of impaired assets	(1,037)	-
Currency revaluation	42	(20)
Balance at the end of the year	-	1,078

Argentine Government Bonds with a maturity year of 2031 and a carrying value of USD 1,311 thousand (LVL 751 thousand) were restructured in June 2010. The Bank received alternative financial assets, which comprised Argentine Government bonds with maturity years of 2017 and 2033 at value of USD 1,223 thousand (LVL 701 thousand), and an Argentine government warrant that would pay to the Bank a maximum of USD 1,296 thousand by year 2035, if certain economic growth criteria are met.

As at 30 June 2010, the Bank valued the above Argentina government bonds using a discounted cash flow model excluding interest payments due to uncertainty of their receipt.

As at 30 June 2010, the value of the Argentina GDP growth linked derivative was valued at USD 236 thousand (LVL 135 thousand) and is classified as fair value through profit and loss asset.

19 Investment property

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Balance at 1 January 2009	<u>5,803</u>	<u>5,100</u>
Addition	-	703
Revaluation	(26)	-
Balance at 30 June 2009	<u>5,777</u>	<u>5,803</u>

20 Other assets

(a) Other assets

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Collateral assumed on non performing loans	<u>19,659</u>	<u>17,942</u>
Prepayments	1,244	2,303
Recoverable VAT	240	151
Other	4,528	211
Impairment allowance on collateral assumed	(3,829)	(2,433)
	<u>21,842</u>	<u>18,174</u>

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

	Six months ended 30 June 2010	12 months ended 31 Dec 2009
	'000 LVL	'000 LVL
Balance at the beginning of the period	<u>17,942</u>	<u>11,176</u>
Transfer from Loans and receivables	10,388	12,445
Sale of collateral completed	(6,391)	(5,679)
Transferred to other debtors	(1,569)	-
Write-offs	(711)	-
Balance at the end of the period	<u>19,659</u>	<u>17,942</u>

(c) Analysis of movements in the impairment allowance

	Six months ended 30 June 2010	12 months ended 31 Dec 2009
	'000 LVL	'000 LVL
Balance at the beginning of the period	<u>2,433</u>	<u>598</u>
Net charge for the year	2,565	271
Net recovery for the year	(630)	-
Write-offs	(562)	(5)
Currency revaluation	23	-
Balance at the end of the period	<u>3,829</u>	<u>2,433</u>

21 Deposits and balances due to financial institutions

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Vostro accounts	3,693	3,236
Term deposits	1,287	84,624
	4,980	87,860

In the second quarter of 2010 Rietumu repaid the last portion of the syndicated loan amount of EUR 120 million attracted in June 2007 for corporate lending purposes. At present, the bank has no syndicated loan obligations.

Concentration of deposits and balances from banks and other financial institutions

At 31 December 2009 the Bank had no balances and at 30 June 2010 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 2010 was LVL 1,151 thousand.

22 Current accounts and deposits due to customers

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Current accounts and demand deposits		
- State enterprises	126	91
- Private companies	21,737	24,119
- Individuals	27,738	23,487
- Private companies non-residents	454,922	329,492
- Individuals non-residents	56,180	48,673
Total current account and demand deposits	560,703	425,862
Term deposits		
- Private companies	13,312	11,590
- Individuals	33,557	23,935
- Private companies non-residents	160,654	182,296
- Individuals non-residents	35,718	37,838
Total term deposits	243,241	255,659
Total current accounts and deposits due to customers	803,944	681,521

As of 30 June 2010 and 31 December 2009, the Bank maintained customer deposit balances of LVL 15,648 thousand and LVL 10,269 thousand which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

As of 30 June 2010 and 31 December 2009, the Bank had no customers whose balances exceeded 10% of total customer accounts.

23 Other borrowed funds

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Natgaz Bull Note	-	454
USD Bear Note	-	441
Total other borrowed funds	-	895

In March 2009, the Bank issued capital protected structured notes “Natgaz Bull Note” whose income is linked to the actual natural gas price changes and the interest income on deposits made. In April 2009, the Bank issued capital protected structured notes “USD Bear Note” with a guaranteed income of 2% p.a.; the actual income is linked to actual gains on the Euro/USD exchange rate futures and deposits made. All notes issued in 2009 were denominated in USD.

One-year notes, which were issued by the Bank in 2009, were repaid in 2010.

24 Other liabilities

	2010	2009
	'000 LVL	'000 LVL
Deferred income	35	1,782
Dividends payable	4	4
Provision for annual leave	706	597
Provision for management bonus	-	400
Other	1,492	1,594
Total other liabilities	2,237	4,377

25 Commitments and contingencies

	30 June 2010	31 Dec 2009
	'000 LVL	'000 LVL
Loan and credit line commitments	32,463	43,905
Guarantees and letters of credit	8,404	4,644
Undrawn overdraft facilities	3,914	4,783
Credit card commitments	2,388	2,566
Total Commitments and contingencies	47,169	55,898

26 Litigation

In the ordinary course of business, the Bank is subject to legal action and complaints. Where no provisions have been set aside by management for such action, management believes that a liability, if any, arising from such action or complaints, is not likely to have a material adverse effect on the financial position or the results of operations of the Bank.

A provision of LVL 448 thousand (2009: LVL 382 thousand) or 50% of an amount disputed, denominated in USD, was made in 2007 for claims where management, based on professional advice received by the Bank, considered it likely that a loss could eventuate. The increase in provision in the year 2010 is due to foreign exchange rate movements. No other amounts have been provided for.

27 Related party transactions

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have significant 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 associated companies and subsidiaries.

(a) Loans due from and deposit due to related parties

	Six months ended 30 June	
	2010 '000 LVL	2009 '000 LVL
Loans		
Loans at the beginning of period	60,091	38,812
Loans issued during period	82,369	50,008
Transfers	3,238	1,905
Loans repaid during the period	(87,108)	(29,670)
Loans at the end of period	<u>58,590</u>	<u>61,055</u>
Interest income earned	<u>1,735</u>	<u>2,532</u>

	Six months ended 30 June	
	2010 '000 LVL	2009 '000 LVL
Deposits		
Deposits at the beginning of period	5,221	11,649
Deposits received during period	11,283	13,560
Transfers	11,091	(189)
Deposits repaid during the period	(2,210)	(11,877)
Deposits at the end of period	<u>25,385</u>	<u>13,143</u>
Interest expense on deposits	<u>374</u>	<u>438</u>

27 Related party transactions (continued)

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

Total remuneration included in employee compensation:

	Six months ended 30 June	
	2010	2009
	'000 LVL	'000 LVL
Members of the Council	65	68
Members of the Board	85	98
	150	166

The outstanding balances as of 30 June 2010 with members of the Council and the Board are as follows:

	Six months ended 30 June	
	2010	2009
	'000 LVL	'000 LVL
Balance Sheet		
Loans to customers	681	938
Term deposits	3,986	10,528

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	
	2010	2009
	'000 LVL	'000 LVL
Income statement		
Interest income	157	17
Interest expense	(7)	(92)

In January 2010 the shareholders ceded to the Bank the loan issued to the third party for the loan net value of LVL 8,585 thousand, for the same amount that the shareholders assumed the loan from the Bank in June 2009.

28 Investments in associates and subsidiaries

As at February 2010, the Bank increased the share capital of its subsidiary RB Investement Ltd by LVL 5,000 thousand.

As at 5 May 2010, the Bank acquired 100% of the shares of Parex Leasing, Belarus. According to the purchase agreement, a contingent fee will become payable if the subsidiary meets certain liquidity ratios in two years.

29 Significant events subsequent to balance sheet date

As at 22 July 2010, the Bank acquired 51% of the shares of InCredit Ltd, Latvia for LVL 51 thousand. The subsidiary's primary business is providing consumer loans.