RIETUMU BANK GROUP

Condensed Interim Consolidated
Financial Statements

for the six month period ended

30 June 2012

Contents

Management Report

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 competiveness 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 though internet banking, phone banking, private bankers and regional managers and 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 Group 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 though 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 of the Group

	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	1,601,631	1,396,150	1 ,133,744	1,126,118	1,003,546
Loans and receivables due from customers	635,617	568,795	472,550	500,536	502,024
Due to customers	1,342,294	1,231,508	984,388	969,947	804,317
Total shareholder's equity	151,624	141,442	129,945	140,651	135,827
For the period (LVL'000)					
Net profit before tax	9,766	12,318	1,551	10,699	3,033
Net profit after tax	8,282	9,827	773	6,842	1,888
Net interest income	15,900	23,471	9,508	20,320	9,991
Net commission income	8,810	13,997	6,161	11,393	4,960
Capital adequacy	16.62% 17.42%[1]	16.79%	17.56% 17.65 %[1]	16.36%	15.87% 16.13 %[1]

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

Group total assets increased in the first half of 2012 to LVL 1,602 m compared to LVL 1,134 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 1,342 m compared to LVL 984 m as at 30 June 2011 again reaching record levels.

Group loans and advances to customers grew to LVL 636 m or by 34% when compared to LVL 473 m as at 30 June 2011. The Group'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 8,282 thousands from LVL 773 thousands for the six months period ended 30 June 2011. The Group's total shareholders' equity increased to LVL 151,624 thousands.

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Independent Auditors' Report

To the shareholders of AS Rietumu banka

Report on the Consolidated Financial Statements

We have audited the accompanying condensed interim consolidated financial information of AS Rietumu banka and its subsidiaries ("the Group"), which comprise the condensed interim consolidated statement of financial position as at 30 June 2012, the condensed interim consolidated income statement and the condensed interim consolidated statements of comprehensive income, condensed interim changes in shareholder's equity and cash flow for the six month period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 38.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on this condensed interim consolidated 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 this 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 consolidated financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed interim consolidated financial information, whether due to fraud or error. In making those risk assessments, we consider internal controls system relevant to the Group's preparation and fair presentation of the condensed interim consolidated 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 Group's internal controls system. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Group management, as well as evaluating the overall presentation of the condensed interim consolidated 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 consolidated financial information of AS Rietumu Banka and its subsidiaries 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*.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
24 September 2012

Valda Užāne
Sworn Auditor
Certificate No 4

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

For the six month period ended 30 June 2012

		Six months ended 30 June	
	Note	**2012 ’000 LVL**	**2011 ’000 LVL**
Interest income	7	23,183	16,224
Interest expense	7	(7,283)	(6,716)
Net interest income		**15,900**	**9,508**
Fee and commission income	8	11,412	8,021
Fee and commission expense	9	(2,602)	(1,860)
Net fee and commission income		**8,810**	**6,161**
Net gain/(loss) on financial instruments at fair value through profit or loss		1,559	(285)
Net foreign exchange income		5,008	4,624
Net realised loss on available-for-sale assets		(433)	-
Net realised loss on net monetary position		(89)	-
Share of profit of equity accounted investees		(41)	(13)
Other income/(expenses)	10	3,186	384
Operating income		**33,900**	**20,379**
Net Impairment losses	11	(7,313)	(5,371)
General administrative expenses	12	(16,821)	(13,457)
Profit before income tax		**9,766**	**1,551**
Income tax expense	13	(1,484)	(778)
Profit for the period		**8,282**	**773**
Attributable to:			
Equity holders of the Bank		7,955	751
Non-controlling interests		327	22

The accompanying notes on pages 15 to 38 are an integral part of the condensed interim consolidated financial statements.

The condensed interim consolidated financial statements as set out on pages 7 to 38 are authorised for issue on 24 September 2012 by:

Leonid Esterkin
Chairman of the Council

Alexander Pankov
Chairman of the Board

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2012

		Six months ended 30 June	
	Note	**2012 ’000 LVL**	**2011 ’000 LVL**
Profit for the period		**8,282**	**773**
Attributable to:			
Equity holders of the Bank		7,955	751
Non-controlling interests		327	22
Other comprehensive income			
Exchange differences on translating foreign operations		52	(1,479)
Revaluation of available-for-sale financial assets		2,689	-
Changes in revaluation reserve		(21)	-
Income tax related to components of other comprehensive income		(403)	-
Other comprehensive income for the period		**2,317**	**(1,479)**
Total comprehensive income for the period		**10,599**	**(706)**
Attributable to:			
Equity holders of the Bank		10,272	(65)
Non-controlling interests		327	(641)

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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	66,271	71,793
Financial instruments at fair value through profit or loss	15	49,662	58,507
Loans and receivables due from banks	16	591,411	493,538
Loans and receivables due from customers	17	635,617	568,795
Reverse repo		67,304	-
Available-for-sale financial assets	18	59,636	78,118
Held-to-maturity investments	19	15,435	15,302
Property and equipment	20	44,529	44,319
Intangible assets	21	2,854	3,183
Investment property	22	48,132	45,413
Investments in associates	29	44	85
Current tax asset		420	488
Deferred tax asset		95	67
Other assets	23	20,221	16,542
Total Assets		**1,601,631**	**1,396,150**

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CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION	**Note**	**30 June 2012 ’000 LVL**	**31 December 2011 ’000 LVL**
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Financial instruments at fair value through profit or loss	15	215	186
Deposits and balances due to banks	24	19,124	14,059
Current accounts and deposits due to customers	25	1,342,294	1,231,508
Amounts payable under repurchase agreements		77,717	-
Current tax liability		227	592
Deferred tax liability		2,318	2,358
Other liabilities	26	8,112	6,005
Total Liabilities		**1,450,007**	**1,254,708**
Share capital		100,000	100,000
Share premium		4,809	4,809
Revaluation reserve		2,605	2,626
Fair value reserve		(119)	(2,405)
Currency translation reserve		(1,708)	(1,760)
Other reserves		10,039	10,025
Retained earnings		28,778	23,490
Total Equity Attributable to Equity holders of the Bank		**144,404**	**136,785**
Non-controlling Interest		**7,220**	**4,657**
Total Shareholders’ Equity		**151,624**	**141,442**
Total Liabilities and Shareholders’ Equity		**1,601,631**	**1,396,150**
Commitments and guarantees	27	55,099	67,428

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

	Note	Six months ended 30 June 2012 '000 LVL	Six months ended 30 June 2011 '000 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		9,766	1,551
Amortization and depreciation	21,22	1,577	1,974
Impairment losses	11	7,313	5,371
Change in fair value of investment property		-	1,376
Gain on sale of property and equipment		-	(149)
(Gain)/Loss on sale of investment property		(98)	213
Gain on sale of subsidiary		-	(31)
Share of loss in equity accounted investees		(1)	13
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**18,557**	**10,318**
Decrease/(Increase) in financial assets at fair value through profit or loss		8,845	(89,488)
Decrease/(Increase) in loans and receivables due from financial institutions		277,597	(52,596)
(Increase)/Decrease in loans and receivables due from customers		(74,040)	22,143
(Increase) /Decrease in reverse repo		(67,304)	4,449
Decrease in available-for-sale-financial assets		21,171	-
(Increase)/Decrease in other assets		(3,785)	3,766
Increase/(Decrease) in financial liabilities at fair value through profit or loss		29	(291)
(Decrease) in deposits due to financial institutions		(515)	(568)
Increase in current accounts and deposits due to customers		110,786	14,591
Increase in amounts payable under reverse repurchase agreements		77,717	-
Increase in other liabilities		2,107	548
(Decrease)/increase in cash and cash equivalents from operating activities before corporate income tax		**371,165**	**(87,128)**
Corporate income tax paid		(2,280)	(1,348)
Net cash and cash equivalents used in operating activities		**368,885**	**(88,476)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets	21,22	(1,278)	(798)
Proceeds from property and equipment		875	239
Proceeds from sale of subsidiary		-	395
Acquisition of property under restructuring of loan		(3,484)	(2,342)
Repayment upon maturity of held-to-maturity investments		(213)	5
Decrease in cash and cash equivalents from investing activities		**(4,100)**	**(2,501)**

Continuation on next page.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

		Six months ended 30 June	
	Note	**2012 '000 LVL**	**2011 '000 LVL**
CASH FLOW FROM FINANCING ACTIVITIES			
(Decrease) of other reserves		-	(10,000)
Shares issued		2,236	-
Dividends paid		(2,653)	
Decrease in cash and cash equivalents from financing activities		**(417)**	**(10,000)**
Net cash flow for the period		**364,368**	**(100,977)**
Cash and cash equivalents at the beginning of the period	14	**245,518**	**302,731**
Cash and cash equivalents at the end of the period	14	**609,886**	**201,754**

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Alexander Pankov
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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six month period ended 30 June 2012

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Other reserves '000 LVL	Foreign currency translation/ revaluation reserve '000 LVL	Retained earnings '000 LVL	Total equity '000 LVL	Non-controlling interest '000 LVL	Total equity '000 LVL
Balance at 1 January 2011 (as reported)	**100,000**	**4,809**	**2,121**	**-**	**20,025**	**(1,260)**	**13,737**	**139,432**	**1,219**	**140,651**
Decrease of Other reserves	-	-	-	-	(10,000)	-	-	**(10,000)**	-	**(10,000)**
Total comprehensive income										
Profit for the period	-	-	-	-	-	-	751	**751**	22	**773**
Exchange differences on the translating foreign operations	-	-	-	-	-	(816)	-	**(816)**	(663)	**1,479**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(816)**	**751**	**(65)**	**(641)**	**(706)**
Balance at 30 June 2011	**100,000**	**4,809**	**2,121**	**-**	**10,025**	**(2,076)**	**14,488**	**129,367**	**578**	**129,945**
Change in ownership interest in subsidiaries										
Issue of new units to third parties by a controlled fund (Note 31)	-	-	-	-	-	-	-	**-**	3,384	**3,384**
Total comprehensive income										
Profit for the period	-	-	-	-	-	-	9,002	**9,002**	52	**9,054**
Revaluation of the property	-	-	505	-	-	-	-	**505**	218	**723**
Changes in fair value of available-for-sales financial assets	-	-	-	(2,405)	-	-	-	**(2,405)**	-	**(2,405)**
Exchange differences on the translating foreign operations	-	-	-	-	-	316	-	**316**	425	**741**
Total comprehensive income	**-**	**-**	**505**	**(2,405)**	**-**	**316**	**9,002**	**7,418**	**695**	**8,113**
Balance at 31 December 2011	**100,000**	**4,809**	**2,626**	**(2,405)**	**10,025**	**(1,760)**	**23,490**	**136,785**	**4,657**	**141,442**

Continuation on next page.

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Other reserves '000 LVL	Foreign currency translation/ revaluation reserve '000 LVL	Retained earnings '000 LVL	Total equity '000 LVL	Non-controlling interest '000 LVL	Total equity '000 LVL
Change in ownership interest in subsidiaries										
Issue of new units to third parties by a controlled fund (Note 31)	-	-	-	-	-	-	-	-	2,236	**2,236**
Dividends paid	-	-	-	-	-	-	(2,653)	**(2,653)**	-	**(2,653)**
Total comprehensive income										
Profit for the period	-	-	-	-	-	-	7,955	**7,955**	327	**8,282**
Change in other reserves	-	-	-	-	14	-	(14)	-	-	-
Changes in fair value of available-for-sales financial assets	-	-	-	2,286	-	-	-	**2,286**	-	**2,286**
Revaluation of property	-	-	(21)	-	-	-	-	**(21)**	-	**(21)**
Exchange differences on translating foreign operations	-	-	-	-	-	52	-	**52**	-	**52**
Balance at 30 June 2012	**100,000**	**4,809**	**2,605**	**(119)**	**10,039**	**(1,708)**	**28,778**	**144,404**	**7,220**	**151,624**

The accompanying notes on pages 15 to 38 are an integral part of the condensed interim consolidated financial statements.

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Leonid Esterkin
Chairman of the Council

Alexander Pankov
Chairman of the Board

1 Background

These condensed interim consolidated financial statements include the financial statements of JSC "Rietumu bank"(the "Bank") and its subsidiaries (together referred to as the "Group"). There have been no significant changes in Group structure since 31 December 2011 except as described in Note 10.

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 Group are prepared in accordance with International Financial Reporting Standard IAS34 *Interim Financial Reporting*. These 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 Group as at and for the year ended 31 December 2011.

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 Board approved the condensed interim consolidated financial statements for issue on 24 September 2012.

(b) Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated.

The functional currencies of subsidiaries of the Bank are LVL except for the subsidiaries listed below:

"RB Securities" Ltd.	USD (US dollar)
"Westleasing" Ltd.	BYR (Belarous rouble)
"Westtransinvest" Ltd.	BYR (Belarous rouble)
"Westleasing-M" Ltd.	RUB (Russian rouble)
"Interrent" Ltd.	BYR (Belarous rouble)
"RB Baki" Ltd.	AZN (Azerbaijan manat)

3 Significant accounting policies

The accounting policies applied by the Group in these condensed interim financial statements are the same as those applied by the Group 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 the expected total annual earnings.

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 Group and Bank’s financial statements, since the entity does not have any defined benefit plans.

4 Risk management

All aspects of the Group’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 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 Group’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

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

4 Risk management (continued)

(ii) Currency risk

	Net income for six month period ended 30 June	
’000 LVL	**2012**	**2011**
5% appreciation of USD against LVL	711	3,687
5% depreciation of USD against LVL	(711)	(3,687)
5% appreciation of EUR against LVL	1,514	2,857
5% depreciation of EUR against LVL	(1,514)	(2,857)
5% appreciation of GBP against LVL	37	-
5% depreciation of GBP against LVL	(37)	-

The foreign exchange rate LVL/EUR is pegged as at 30 June 2012. Pegged LVL/EUR exchange rate is 1.422872.

(iii) Price risk

	Net income for six month period ended 30 June	
’000 LVL	**2012**	**2011**
5% increase in securities prices	1,947	6,560
5% decrease in securities prices	(1,947)	(6,560)

5 Capital management

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

The Group 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 Group was in compliance with the FCMC determined individual capital ratio during the six-month periods ended 30 June 2012 and 30 June 2011, as well as during the year ended 31 December 2011.

The Group’s risk based capital adequacy ratio, as at 30 June 2012, was 17.42% (31 December 2011: 16.79% and 30 June 2011: 17.65%).

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 Group'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.

- Determining fair value of financial instruments;
- Impairment allowance for loans and receivables;
- Impairment of available for sale financial instruments;
- Impairment of held to maturity financial instruments;
- Determining fair value of property;
- Recoverable amount of collateral assumed on non-performing loans;
- Impairment of goodwill;
- Useful life of equipment;
- Deferred tax asset recoverability.

During the six months ended 30 June 2012 management reassessed its estimates in respect of:

- Allowances for credit losses on loans and recievables (see note 17);

7 Net interest income

	Six months ended 30 June	
	2012 '000 LVL	**2011 '000 LVL**
Interest income		
Loans and receivables due from customers	19,989	14,326
Financial instruments at fair value through profit or loss	1,522	1,682
Loans and receivables due from financial institutions	1,072	68
Amounts receivable under reverse repurchase agreements	357	113
Held-to-maturity investments	243	35
	23,183	**16,224**
Interest expense		
Current accounts and deposits due to customers	5,243	5,401
Deposits and balances due to financial institutions	67	217
Amounts payable under repurchase agreements	8	-
Other	1,965	1,098
	7,283	**6,716**

8 Fee and commission income

	Six months ended 30 June	
	2012 ’000 LVL	**2011 ’000 LVL**
Money transfers	4,487	3,130
Commission income from payment cards	3,444	2,158
Revenue from Customer asset management and brokerage commissions	962	1,053
Commission from account servicing	377	202
Commission from documentary operations	217	119
Commission from loans	159	-
Cash withdrawals	104	101
Remote system fee	67	301
Other	1,595	957
	11,412	**8,021**

9 Fee and commission expense

	Six months ended 30 June	
	2012 ’000 LVL	**2011 ’000 LVL**
Payment card expenses	1,328	776
Agent commissions	654	292
Brokerage fees	266	241
Correspondent accounts	189	163
Loan commisions	-	48
Cash withdrawals	4	4
Other	161	336
	2,602	**1,860**

10 Other income/(expenses)

	Six months ended 30 June	
	2012 **’000 LVL**	**2011** **’000 LVL**
Income from operating lease	2,432	1,462
Profit from sale of property and equipment	-	149
Penalties received	365	133
Profit from sale of investment property	98	-
Dividendes received	78	45
Gain on sale of subsidiaries	386	31
Loss/(recovery) of assets written off	59	(67)
Fair value change in investment property	-	(1,284)
Other (net)	(232)	(85)
	3,186	**384**

In January 2012, the Group sold its 100% ownership in Parex Leasing OOO, Belarus for 100USD. The gain on the sale of the subsidiary is measured as follows:

’000 LVL	**Carrying amount at date of disposal**
Assets	
Loans and receivables	85
Other assets	9
Liabilities	
Other liabilities	(94)
Net identifiable assets and liabilities	**-**
Consideration received	**-**
Currency translation reserve	**386**
Gain on sale of subsidiary	**386**

11 Impairment losses

	Six months ended 30 June	
	2012 '000 LVL	**2011 '000 LVL**
Impairment losses		
Loans and receivables from customers	(11,017)	(9,657)
Held-to-maturity investments	(80)	(104)
Available-for-sale financial assets	-	(109)
Intangible assets	(1)	-
Other assets	(20)	(93)
	(11,118)	**(9,963)**
Reversals of impairment losses		
Loans and receivables from customers	3,799	4,555
Other assets	6	37
	3,805	**4,592**
Net impairment losses	**(7,313)**	**(5,371)**

12 General administrative expenses

	Six months ended 30 June	
	2012 '000 LVL	**2011 '000 LVL**
Employee compensation	6,632	6,539
Depreciation and amortisation	1,577	1,974
Payroll related taxes	1,609	233
Salaries to Board of Directors and Council	852	589
Repairs and maintenance	779	567
Taxes other than on corporate income and payroll	613	175
IT service and IT material consumption	534	535
Communications and information services	486	405
Rent	451	418
Advertising and marketing	404	372
Professional services	420	202
Travel expenses	374	356
Representative offices	404	194
Other	1,686	898
	16,821	**13,457**

13 Income tax expense

	Six months ended 30 June	
	2012 **'000 LVL**	**2011** **'000 LVL**
Current tax expense	1,983	943
Deferred tax expense	(499)	(165)
Total income tax expense in the income statement	**1,484**	**778**

(a) Reconciliation of effective tax rate:

	30 June 2012 **'000 LVL**	**%**	**31 Dec 2011** **'000 LVL**	**%**
Income before tax	9,766		12,318	
Income tax at the applicable tax rate	1,465	15.00%	1,848	15.00%
Non-deductible costs	19	0.20%	984	7.99%
Tax relief donations	-	-	(262)	(2.13%)
Change in unrecognized deferred tax asset	-	-	(149)	(1.21%)
Effect of different tax rate in other countries	-	-	70	0.58%
	1,484	**15.20%**	**2,491**	**20.23%**

14 Cash and balances with the central bank

	30 June 2012 **'000 LVL**	**30 Dec 2011** **'000 LVL**
Cash	3,573	3,254
Balances due from the Bank of Latvia	62,698	68,539
Total	**66,271**	**71,793**

Cash and Cash Equivalents consist of the following:

	30 June 2012 **'000 LVL**	**30 Dec 2011** **'000 LVL**
Cash	3,573	3,254
Balances due from the Bank of Latvia	62,698	68,539
Demand loans and receivables from banks	562,289	186,819
Demand deposits from banks	(18,674)	(13,094)
Total	**609,886**	**245,518**

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	19,460	36,556
- with rating from BBB+ to BBB-	21,416	16,337
- non- investment grade	6,265	4,274
- not rated	1,413	192
Equity investments	672	827
Derivative financial instruments	436	321
Total assets at fair value through profit or loss	**49,662**	**58,507**
Derivative financial instruments	(215)	(186)
Total liabilities at fair value through profit or loss	**(215)**	**(186)**
Of which pledged under sale and repurchase agreements		
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 premium	180	n/a	204	n/a
Swap contracts	6	674	3	193
Total derivative financial assets	**436**		**321**	
Liabilities				
Swap contracts	6	138	117	7,999
Forward contracts	209	16,092	69	2,281
Total derivative liabilities	**215**		**186**	

16 Loans and receivables due from banks

	30 June 2012 ’000 LVL	31 Dec 2011 ’000 LVL
Demand accounts		
Latvian commercial banks	453	45,979
OECD banks	554,890	120,002
Other non-OECD banks	6,946	20,838
Total demand accounts	**562,289**	**186,819**
Deposit accounts		
Latvian commercial banks	5,061	27,200
OECD banks	17,725	265,120
Other non-OECD banks	6,336	14,399
Total deposit accounts	**29,122**	**306,719**
	591,411	**493,538**

Concentration of placements with banks and other financial institutions

As at 30 June 2012 and 31 December 2011, the Group had balances with two banks, which exceeded 10% of total loans and receivables from banks. The gross value of these balances as of 30 June 2012 and 31 December 2011 were LVL 63,186 thousand and LVL 107,894 thousand, respectively.

17 Loans and receivables due from customers

	30 June 2012 ’000 LVL	31 Dec 2011 ’000 LVL
Companies		
Finance leases	23,655	18,215
Loans	592,058	526,128
Individuals		
Finance leases	8,514	5,243
Loans	61,495	61,889
Specific impairment allowances	(49,770)	(42,464)
Collective Impairment allowances	(335)	(216)
Net loans and receivables from customers	**635,617**	**568,795**

17 Loans and receivables due from customers (continued)

(a) Finance leases

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	30 June 2012 ’000 LVL	31 Dec 2011 ’000 LVL
Gross investment in finance leases, receivable		
Less than one year	17,668	10,956
Between one and five years	22,738	16,170
Total gross investment in finance leases	40,406	27,126
Unearned finance income	(8,237)	(3,668)
Net investment in finance lease before impairment allowance	32,169	23,458
Total impairment allowance	(2,085)	(1,793)
Net investment in finance lease	**30,084**	**21,665**
The net investment in finance lease comprises:		
Less than one year	13,320	8,004
Between one and five years	16,764	13,661
Net investment in finance lease	**30,084**	**21,665**

(b) 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
As at 30 June 2012			**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	
Net carrying amount	**635,617**	589,701	13,883	14,300	4,034	13,699	45,916
Out of which impaired	**82,901**	61,086	5,024	3,775	2,568	10,448	21,815
Assessed fair value of collateral	**789,415**	731,815	16,464	13,595	5,858	21,683	57,600
As at 31 Dec 2011							
Net carrying amount	**568,795**	510,578	30,303	14,500	912	12,502	58,217
Out of which impaired	**64,945**	47,823	2,374	3,375	266	11,107	17,122
Assessed fair value of collateral	**699,101**	609,645	23,489	46,069	1,082	18,816	89,456

17 Loans and receivables due from customers (continued)

(ii) Analysis of loan by type of collateral

The following table provides the analysis of 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	194,448	30.59	186,588	32.80
Commercial assets pledge	155,868	24.52	108,556	19.09
Traded securities	93,464	14.71	97,279	17.10
Other mortage	64,550	10.16	50,435	8.87
Without Collateral	41,804	6.58	36,184	6.36
Land mortgage	40,057	6.30	47,514	8.35
Mortgage on residential properties	27,275	4.29	29,011	5.10
Guarantee	2,496	0.39	3,732	0.66
Not traded securities	3,631	0.57	1,133	0.20
Deposit	3,061	0.48	834	0.15
Other	8,963	1.41	7,529	1.32
Total	**635,617**	**100.00**	**568,795**	**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) Impaired loans

	30 June 2012 ’000 LVL	31 Dec 2011 ’000 LVL
Impaired loans gross	152,969	122,687
Specific impairment allowance	(49,770)	(42,464)
Net loans and receivables from customers	**103,199**	**80,223**
Fair value of collateral related to impaired loans	**128,329**	**108,484**

When reviewing loans the Group sets the following categories for individual loans to assess their 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	576,149	(630)	(335)	515,304	(290)	(216)
Watch	36,182	(5,662)	-	38,206	(5,168)	-
Substandard	35,887	(11,795)	-	23,890	(8,256)	-
Doubtful	28,093	(22,339)	-	28,910	(23,594)	-
Lost	9,411	(9,344)	-	5,165	(5,156)	-
Total	**685,722**	**(49,770)**	**(335)**	**611,475**	**(42,464)**	**(216)**

17 Loans and receivables due from customers (continued)

(iv) Movements in the impairment allowances

Movements in the loan impairment allowance as at 30 June 2012 and 31 December 2011 are as follows:

	Jan – June 2012 ’000 LVL	Jan – Dec 2011 ’000 LVL
Allowance for impairment		
Balance at the beginning of the period	**42,680**	**36,809**
Charge for the period:		
Specific impairment allowance	10,899	16,721
Collective impairment allowance	118	203
Reversal of impairment allowance loss:		
Specific impairment allowance	(3,798)	(9,158)
Collective impairment allowance	(1)	(53)
Effect of currency exchange translation	223	(267)
Sale of subsidiary	(1)	-
Write offs	(15)	(1,575)
Balance at the end of the period	**50,105**	**42,680**

(c) Industry analysis of the loan portfolio

	30 June 2012 ’000 LVL	31 Dec 2011 ’000 LVL
Real estate management	162,252	162,528
Financial services	224,778	221,834
Individuals	61,494	49,066
Wholesale and retailing	30,533	28,631
Construction	32,456	22,898
Manufacturing	23,195	24,508
Investments in finance lease	30,037	13,571
Food industry	7,599	7,145
Transport and communication	30,182	14,776
Tourism	7,494	7,426
Financial instruments classified as loans and receivables	368	571
Other	25,229	15,841
	635,617	**568,795**

17 Loans and receivables due from customers (continued)

(d) Geographical analysis of the loan portfolio

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Latvia	124,197	182,437
OECD countries	69,183	72,777
Non-OECD countries	442,237	313,581
	635,617	**568,795**

Significant credit exposures

As at 30 June 2012 and 2011 the Group had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loan and receivables from customers.

According to regulatory requirements, the Group 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 Group was in compliance with this requirement.

18 Available-for-sale financial assets

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Equity investments		
Equity shares		
Corporate shares	592	316
Bonds		
- with rating AAA to A	32,558	53,053
- with rating BBB+ to BBB-	23,076	19,447
- no rating	3,410	5,302
Total available-for-sale financial assets	**59,636**	**78,118**
Of which pledged under sale and repurchase agreements	**50,500**	**-**

19 Held-to-maturity investments

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Debt and other fixed-income instruments		
- 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 – June 2012 '000 LVL	Jan – Dec 2011 '000 LVL
Balance at the beginning of the year	**176**	**-**
Net charge / (recovery) for the period	80	176
Currency revaluation	8	-
Balance at the end of the period	**264**	**176**

20 Property and equipment

Cost/Revalued amount '000 LVL	**Land and Buildings**	**Construction in progress**	**Vehicles**	**Other equipment**	**Total**
At 1 January 2012	39,550	86	1,743	13,993	55,372
Additions	5	75	1	1,108	1,189
Disposals	-	-	(145)	(142)	(287)
Transfers	-	(14)	-	91	77
Revaluation	(21)	-	-	-	(21)
Currency translation	104	-	2	7	113
At 30 June 2012	**39,638**	**147**	**1,601**	**15,057**	**56,443**
Depreciation and impairment losses					
At 1 January 2012	1,357	-	1,306	8,390	11,053
Depreciation charge	362	-	97	673	1,132
Disposals	-	-	(145)	(132)	(277)
Currency translation	-	-	2	4	6
At 30 June 2012	**1,719**	**-**	**1,260**	**8,935**	**11,914**
Carrying value					
At 30 June 2012	**37,919**	**147**	**341**	**6,122**	**44,529**
At 31 December 2011	38,193	86	437	5,603	44,319

20 Property and equipment (continued)

Cost/Revalued amount '000 LVL	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment**	**Total**
At 1 January 2011	39,052	47	1,328	13,595	54,022
Additions	44	39	281	1,040	1,404
Disposals	(141)	-	(124)	(1,075)	(1,340)
Transfers from advances	-	-	257	431	688
Revaluation	853	-	-	-	853
FX translation	(258)	-	1	2	(255)
At 31 December 2011	**39,550**	**86**	**1,743**	**13,993**	**55,372**
Depreciation and impairment losses					
At 1 January 2011	684	-	1,036	7,518	9,238
Depreciation charge	704	-	219	1,736	2,659
Disposals	(15)	-	(95)	(985)	(1,095)
FX translation	(16)	-	146	121	251
At 31 December 2011	**1,357**	**-**	**1,306**	**8,390**	**11,053**
Carrying value					
At 31 December 2011	**38,193**	**86**	**437**	**5,603**	**44,319**
At 31 December 2010	38,368	47	292	6,077	44,784

21 Intangible assets

Cost/Revalued amount				
’000 LVL	**Goodwill**	**Software**	**Other**	**Total**
At 1 January 2012	2,339	7,615	1,488	11,442
Additions	1	32	56	89
Transfers from advances	-	28	-	28
At 30 June 2012	**2,340**	**7,675**	**1,544**	**11,559**
Amortisation and impairment losses				
At 1 January 2012	1,588	6,364	307	8,259
Impairment loss	1	-	-	1
Amortisation charge	-	375	70	445
At 30 June 2012	**1,589**	**6,739**	**377**	**8,705**
Carrying value				
At 30 June 2012	**751**	**936**	**1,167**	**2,854**
At 31 December 2011	751	1,251	1,181	3,183

Cost/Revalued amount				
’000 LVL	**Goodwill**	**Software**	**Other**	**Total**
At 1 January 2011	2,339	7,578	1,056	10,973
Additions	-	108	132	240
Reclassification	-	(300)	300	-
Transfers from advances	-	229	-	229
At 31 December 2011	**2,339**	**7,615**	**1,488**	**11,442**
Amortisation and impairment losses				
At 1 January 2011	1,588	5,476	229	7,293
Amortization charge	-	888	78	966
At 31 December 2011	**1,588**	**6,364**	**307**	**8,259**
Carrying value				
At 31 December 2011	**751**	**1,251**	**1,181**	**3,183**
At 31 December 2010	751	2,102	827	3,680

Other intangible assets include license to sell electrical energy held by Group’s subsidiary Elektrobizness SIA, which was recognized upon business combination in 2008, with residual value of LVL 1,042 thousand as at 30 June 2012.

22 Investment property

	Jan – June 2012 ’000 LVL	**Jan – Dec 2011 ’000 LVL**
Balance at 1 January	45,413	43,244
Collateral from loans assumed	7	499
Transfer from advances		79
Addition	3,484	2,737
Sale of investment property	(865)	(423)
Revaluation of property	-	(397)
Currency revaluation	93	(326)
Balance at the period end	**48,132**	**45,413**

Investment property comprises office buildings and other commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties. The Group’s investment property comprises of a juice processing terminal, residential properties, office buildings, plots of land, and a hotel and leisure complex.

23 Other assets

	30 June 2012 ’000 LVL	**31 Dec 2011 ’000 LVL**
Collateral assumed on non performing loans	8,945	9,059
Prepayments	3,824	1,705
Guarantee receivable from borrower	2,503	2,606
Recoverable VAT	2,081	1,327
Tax prepayments	49	16
Other	5,164	4,102
Impairment allowance on collateral assumed	(2,345)	(2,273)
	20,221	**16,542**

23 Other assets (continued)

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

	Jan – June 2012 ’000 LVL	**Jan – Dec 2011 ’000 LVL**
Balance at the beginning of the period	9,059	15,910
Reclassified to guarantee receivable	-	(528)
Sale of collateral completed	(114)	(5,364)
Reclasified to other under other assets	-	(444)
Reclasified to investment property	-	(499)
Currency revaluation	-	(16)
Balance at the end of the period	**8,945**	**9,059**

Analysis of movements in the impairment allowance

	Jan – June 2012 ’000 LVL	**Jan – Dec 2011 ’000 LVL**
Balance at the beginning of the period	2,273	4,389
Net charge for the period	20	236
Net recovery for the period	(6)	(52)
Sale completed	-	(2,287)
Sale of subsidiary	(15)	-
Currency revaluation	73	(13)
Balance at the end of the period	**2,345**	**2,273**

24 Deposits and balances due to financial institutions

	30 June 2012 ’000 LVL	**31 Dec 2011 ’000 LVL**
Vostro accounts	18,674	13,094
Term deposits	450	965
	19,124	**14,059**

Concentration of deposits and balances from banks and other financial institutions

As at 30 June 2012 the Group 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 14,134 thousand as of 30 June 2012 and LVL 10,049 thousand as of 31 December 2011.

25 Current accounts and deposits due to customers

	30 June 2012 '000 LVL	31 Dec 2011 '000 LVL
Current accounts and demand deposits		
- State enterprises	3	84
- Private companies residents	40,245	24,019
- Individuals residents	28,995	28,609
- Government- non-residents	32	53
- Private companies non-residents	854,874	780,436
- Individuals non-residents	142,928	111,224
Total current account and demand deposits	**1,067,077**	**944,425**
Term deposits		
- State enterprise	207	162
- Private companies residents	4,479	5,178
- Individuals residents	36,312	38,934
- Private companies non-residents	143,391	155,516
- Individuals non-residents	38,032	42,068
Subordinated deposits		
- Individuals residents	6,491	6,343
- Private companies non-residents	13,192	10,965
- Individuals non-residents	33,113	27,917
Total term deposits	**275,217**	**287,083**
Total current accounts and deposits due to customers	**1,342,294**	**1,231,508**

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 shareholder`s claims.

(a) Blocked accounts

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

(b) Concentrations of current accounts and customer deposits

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

26 Other liabilities

	30 June 2012 ’000 LVL	31 Dec 2011 ’000 LVL
Prepayments	1,594	1,182
Accrual for annual leave	785	706
Deferred income	938	80
Accrual for management bonus	938	649
Accrued liability for deposits guarantee fund	824	439
VAT payable	57	66
Dividends payable	4	4
Other accrued liabilities	558	236
Other	2,414	2,643
	8,112	**6,005**

27 Commitments and guarantees

	30 June 2012 ’000 LVL	31 Dec 2011 ’000 LVL
Loan and credit line commitments	34,698	44,554
Credit card commitments	7,553	6,662
Undrawn overdraft facilities	5,007	6,286
Guarantees and letters of credit	7,841	9,926
	55,099	**67,428**

28 Litigation

In the ordinary course of business, the Group 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 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 management.

29 Investments in associates

The Group owns a share in the following associates, both associated companies provide transportation services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorporation	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
				30 June 2012		31 December 2011
"AED Real Service" Ltd	Latvia	Information services for the railway	43.00%	21	43.00%	62
"Dzelzcela Tranzits Ltd	Latvia	Information services for the railway	49.12%	23	49.12%	23
Total				**44**		**85**

30 Related party transactions

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

Transactions and balances with members of the Council and the Board of Directors

The outstanding balances as of 30 June 2012 and 31 December 2011 with members of the Council and the Board are as follows:	**30 June 2012 '000 LVL**	**31 Dec 2011 '000 LVL**
Loans and receivables		
Shareholders, Members of Council and Board	510	602
Key management personnel and relatives	151	170
Companies controlled by Shareholders, Members of Council and Board	19,071	4,352
Term deposits		
Shareholders, Members of Council and Board	8,300	8,109
Key management personnel and relatives	1,946	1,793
Companies controlled by Shareholders, Members of Council and Board	6,707	7,115

Total remuneration included in employee compensation (Note 12):

	Jan – June 2012 '000 LVL	**Jan – Dec 2011 '000 LVL**
Members of the Council	106	405
Members of Board	746	656
	852	**1,061**

31 Issue of new units to third parties by a controlled fund

On 5 July 2011, the Bank acquired 100% units of open-ended fund RBAM Fixed Income Fund I in value of USD 13,000 thousand. Subsequently the RBAM Fixed Income Fund I started issuing units to third parties. As at 30 June 2012, the share of the Bank and the Group in the fund stood at 56% (as at 31 December 2011: 67%).