

**A/S RIETUMU BANKA**  
**Interim Condensed**  
**Consolidated and Bank**  
**Financial Statements**  
**for the six month period**  
**ended 30 June 2005**

*A/S Rietumu banka*  
*Interim Condensed Consolidated and Bank Financial Statements*  
*for the six month period ended 30 June 2005*

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## **Management Commentary**

### **Operating and financial review**

The first 6 months of 2005 were very successful and promising from an operational, financial and strategic viewpoint. The Bank's financial performance is significantly better than expected and the Bank grew at a stable pace while maintaining high profitability. The Bank continued to improve its reputation as one of the best managed and stable financial institutions in the Baltic States. This success has been achieved while upholding the objectives of being a Bank for corporate customers with a conservative financial position. This approach allowed an increase of shareholders value without damaging the safety of the Bank and depositors.

### **Operating results**

The significant focus on improving our credit products and service over the previous two years is starting to pay dividends. The Bank has positioned itself to compete and grow its loan portfolio in the increasing competitive lending environment in Latvia. We achieved significant success in lending to large Latvian corporate customers while maintaining a conservative lending policy. This conservatism is reflected in the low loan loss provisioning for the 6 months ended 30 June 2005. As part of the expansion of the corporate lending portfolio, the Bank continued its lending outside Latvia. This lending is done with a very conservative approach and on a case by case basis to customers that have businesses located outside Latvia.

Customer Relationship Management and customer service to all customers that use either branches or remote systems was improved significantly. Much effort was put into improving our remote banking services, especially internet banking. We successfully launched a retail version of our internet banking products. The Bank has 9 branches in Riga and 2 branches outside Riga. The Bank's branches are located in business areas and they focus to offer competitive services to corporate customers. The Bank's is represented outside Latvia by representative offices in Moscow, Kiev, Minsk, Almata, Saint Petersburg, Prague and Kishinev.

During the first 6 months of 2005, the Bank started restructuring of most of the business divisions of the Bank. The objective of this restructuring is to maximize the Bank's competitive advantage for the forth coming 2 years. As part of this restructuring the Bank has operationally divided its brokerage subsidiary splitting asset management and brokerage into two separate profit centers. Risk management and compliance are in the process of a complete restructuring and we expect a significant growth in risk management and compliance staff numbers until the end of 2005. Before the end of 2005, significant changes are planned in many other business and administrative departments of the Bank.

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**Financial results, consolidated**

	<b>30 June 2005</b> <b>( 6 months)</b>	<b>31 December</b> <b>2004</b>	<b>30 June 2004</b> <b>(6 months)</b>	<b>30 June 2003</b> <b>(6 months)</b>
<b>At year end (Ls'000)</b>				
Total assets	716,375	603,209	535,810	420,478
Loans and advances to customers	245,712	192,011	180,676	104,780
Due to customers	642,446	539,585	481,783	375,257
Total shareholders' equity	49,858	44,380	35,687	26,420
<b>For the year (Ls'000)</b>				
Net profit before tax	9,807	16,510	7,305	4,388
Net profit after tax and minority interest	8,467	14,568	6,238	3,448
Operating income	19,166	31,919	14,829	11,260

**Ratios**

**Capital adequacy**

Basle	11.84%	14.35%	11.06%	12.99%
Financial & Capital Markets Commission	8.85%	14.11%	11.56%	13.15%

During the first 6 months of 2005, total assets grew to Ls 716 m from Ls 603 m on 31 December 2004. This represents a growth of 19% for 6 months. Due to customers balances increased by 19% from Ls 540 m on 31 December 2004 to Ls 642 m on 30 June 2005. Current accounts and term deposits were Ls 535m and Ls 107m respectively (31 December 2004: Ls503m and Ls 37m respectively).


The Bank's group net profit before tax for the 6 months ended 30 June 2005 was Ls 10 m (6 months ended 30 June 2004: Ls 7 m) representing an increase of Ls 3 m. Total shareholders equity increased from Ls 44 million on 31 December 2004 to Ls 50 million on 30 June 2005.

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

We are looking forward to the second half of 2005 and beyond and we firmly believe that we will continue to offer the best corporate service of any bank in the Baltic States. We owe our success to our customers and business partners and we would like to express our appreciation to our customers and business partners for the trust that they have placed in us.

8 August 2005

  
 \_\_\_\_\_  
 Leonid Esterkin  
 Chairman of the Council

  
 \_\_\_\_\_  
 Michael J. Bourke  
 Chairman of the Board of Directors

*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2005*



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## **Auditors' Report**

### **To the shareholders of the joint stock company Rietumu Banka**

We have audited the accompanying unconsolidated interim condensed balance sheet of the joint stock company Rietumu Banka (the Parent) as of 30 June 2005 and the related unconsolidated interim condensed statements of income, changes in equity and cash flows for the six months period then ended as set out on pages 6 to 14 (the unconsolidated interim financial information). We have also audited the accompanying consolidated interim condensed balance sheet of the joint stock company Rietumu Banka and subsidiaries (the Group) as of 30 June 2005 and the related consolidated interim condensed statements of income, changes in equity and cash flows for the six months period then ended as set out on pages 6 to 14 (the consolidated interim financial information). This interim financial information is the responsibility of the parent company's management. Our responsibility is to issue a report on this interim financial information based on our audit. In addition, it is our responsibility to assess whether the accounting information included in the management report is consistent with the interim financial information.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the interim financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall interim financial information presentation. Our work with respect to the Management Report was limited to the aforementioned scope, and did not include a review of any information other than drawn from the interim financial information. We believe that our audit provides a reasonable basis for our opinion.

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

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

Patrick Querubin  
KPMG Baltics SIA  
Licence No 55  
Riga, Latvia  
8 August 2005

Inga Lipšāne  
Sworn Auditor  
Certificate No. 112


*A/S Rietumu banka*  
*Interim Condensed Consolidated and Bank Financial Statements*  
*for the six month period ended 30 June 2005*

*Interim Income Statement for the six month period ended 30 June 2005*

	Notes	Six months ended 30 June			
		2005		2004	
		Group	Bank	Group	Bank (restated)
		Ls '000	Ls '000	Ls '000	Ls '000
Interest income	3	13,225	12,582	7,461	6,764
Interest expense	4	(2,462)	(2,338)	(1,601)	(1,532)
<b>Net interest income</b>		<b>10,763</b>	<b>10,244</b>	<b>5,860</b>	<b>5,232</b>
Commission and fee income	5	6,116	5,293	6,062	4,931
Commission and fee expense	6	(720)	(692)	(1,113)	(855)
<b>Net commission and fee income</b>		<b>5,396</b>	<b>4,601</b>	<b>4,949</b>	<b>4,076</b>
Dividends received	11	13	6,601	6	6
Profit on securities trading and foreign exchange, net		2,178	1,161	3,757	2,728
Other operating income		816	479	257	220
<b>Operating income</b>		<b>19,166</b>	<b>23,086</b>	<b>14,829</b>	<b>12,262</b>
Administrative expense		(7,398)	(7,111)	(5,433)	(5,214)
Amortisation and depreciation expense		(955)	(940)	(986)	(978)
Other operating expense		(780)	(41)	(895)	(15)
Impairment losses	7	(582)	(582)	(377)	(377)
Release of previously established allowance	7	356	356	167	167
<b>Income before income tax</b>		<b>9,807</b>	<b>14,768</b>	<b>7,305</b>	<b>5,845</b>
Income tax		(1,340)	(1,293)	(1,067)	(999)
<b>Net income for the period</b>		<b>8,467</b>	<b>13,475</b>	<b>6,238</b>	<b>4,846</b>
Basic earnings per share		<b>0.41</b>	<b>0.65</b>	<b>0.30</b>	<b>0.24</b>

The interim condensed consolidated and bank financial statements on pages 6 to 14 are authorized for approval by the Council and the Board of Directors of the Bank on 8 August 2005 and signed on their behalf by:

  
 Leonida Ešterkin  
 Chairman of the Council

  
 Michael J. Bourke  
 Chairman of the Board of Directors

*The accompanying notes on pages 11 to 14 are an integral part of these interim condensed consolidated and bank financial statements.*


*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
for the six month period ended 30 June 2005

**Interim Balance Sheet and Memorandum Items as at 30 June 2005**

	Notes	30/06/05		31/12/04	
		Group	Bank	Group	Bank
		Ls '000	Ls '000	Ls '000	Ls '000 (restated)
<b>Assets</b>					
Cash and deposits with the Bank of Latvia		47,570	47,555	24,270	24,266
Balances due from credit institutions		288,650	288,229	287,274	286,871
Loans and advances to non-banking customers	8	245,712	224,797	192,011	174,670
Fixed income securities		115,416	115,416	80,876	80,876
<i>Trading portfolio</i>	9	20,759	20,759	-	-
<i>Investment securities – available-for-sale</i>	10	10,672	10,672	8,678	8,678
- <i>held-to-maturity</i>	10	83,985	83,985	72,198	72,198
Shares and other non-fixed income securities		2,104	1,226	1,483	1,106
<i>Trading portfolio</i>	9	1,026	1,026	968	966
<i>Investment securities – available-for-sale</i>	10	1,078	200	515	140
Investments in subsidiaries	11	2	10,044	12	2,325
Goodwill		1,143	987	1,125	987
Intangible assets		3,037	3,024	3,154	3,153
Property and equipment		9,376	9,265	9,397	9,291
Other assets		1,764	1,158	1,878	1,282
Prepayments and accrued income		1,601	1,376	1,729	1,507
<b>Total assets</b>		<b>716,375</b>	<b>703,077</b>	<b>603,209</b>	<b>586,334</b>
<b>Liabilities</b>					
Balances due to credit institutions		19,490	19,490	14,922	14,922
Due to customers		642,446	630,240	539,585	528,870
Derivative financial instruments		166	166	287	287
Deferred income and accrued expense		4,141	4,032	3,803	3,553
<i>Current taxes</i>		139	129	331	327
<i>Deferred tax liabilities</i>		531	515	515	515
<i>Other deferred income and accrued expenses</i>		3,471	3,388	2,957	2,711
Other liabilities		277	121	232	157
<b>Total liabilities</b>		<b>666,520</b>	<b>654,049</b>	<b>558,829</b>	<b>547,789</b>
<b>Shareholders' equity</b>					
Paid-in share capital		20,757	20,757	20,757	20,757
Legal reserves		16	16	16	16
Share premium		151	151	151	151
Revaluation reserve – <i>property</i>		636	636	636	636
Revaluation reserve – <i>available-for-sale investments</i>		(26)	(26)	(23)	(23)
Retained earnings		28,321	27,494	22,843	17,008
<b>Total shareholders' equity</b>		<b>49,855</b>	<b>49,028</b>	<b>44,380</b>	<b>38,545</b>
<b>Total liabilities and shareholders' equity</b>		<b>716,375</b>	<b>703,077</b>	<b>603,209</b>	<b>586,334</b>
<b>Memorandum items</b>					
Contingent liabilities		7,279	7,279	7,942	7,942
Letters of credit		3,361	3,361	3,355	3,355
Financial commitments		20,299	69,679	15,558	15,558

The interim condensed consolidated and bank financial statements on pages 6 to 14 are authorized for approval by the Council and the Board of Directors of the Bank on 8 August 2005 and signed on their behalf by:

  
Leonid Esterkin  
Chairman of the Council

  
Michael J. Bourke  
Chairman of the Board of Directors

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**Interim Statement of Changes in Shareholders' Equity for the six month period ended 30 June 2005**

**GROUP**

	Paid-in share capital Ls '000	Share premium Ls'000	Legal reserves Ls '000	Revaluation reserve – property Ls '000	Revaluation reserve - available – for-sale investments Ls '000	Retained earnings Ls '000	Total shareholders' equity Ls '000
<b>Balance at 31 December 2003</b>	<b>20,548</b>	<b>25</b>	<b>16</b>	<b>652</b>	<b>(236)</b>	<b>10,211</b>	<b>31,216</b>
Dividends paid on ordinary shares	-	-	-	-	-	(1,952)	(1,952)
Treasury shares sold	1	-	-	-	-	-	1
Revaluation of available-for-sale investments	-	-	-	-	184	-	184
Net profit for the period	-	-	-	-	-	6,238	6,238
<b>Balance at 30 June 2004</b>	<b>20,549</b>	<b>25</b>	<b>16</b>	<b>652</b>	<b>(52)</b>	<b>14,497</b>	<b>35,687</b>
Transfers	-	-	-	(16)	-	16	-
Revaluation of available-for-sale investments	-	-	-	-	29	-	29
Share issue	206	123	-	-	-	-	329
Purchase of treasury shares	2	3	-	-	-	-	5
Net profit for the period	-	-	-	-	-	8,330	8,330
<b>Balance at 31 December 2004</b>	<b>20,757</b>	<b>151</b>	<b>16</b>	<b>636</b>	<b>(23)</b>	<b>22,843</b>	<b>44,380</b>
Dividends paid on ordinary shares	-	-	-	-	-	(2,989)	(2,989)
Revaluation of available-for-sale investments	-	-	-	-	(3)	-	(3)
Net profit for the period	-	-	-	-	-	8,467	8,467
<b>Balance at 30 June 2005</b>	<b>20,757</b>	<b>151</b>	<b>16</b>	<b>636</b>	<b>(26)</b>	<b>28,321</b>	<b>49,855</b>

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*Interim Statement of Changes in Shareholders' Equity for the six month period ended 30 June 2005*

**BANK**

	Paid-in share capital Ls '000	Share premium Ls'000	Legal reserves Ls '000	Revaluation reserve – property Ls '000	Revaluation reserve – available – for-sale investments Ls '000	Retained earnings Ls '000	Total shareholders' equity Ls '000
<b>Balance at 31 December 2003 as reported</b>	<b>20,548</b>	<b>25</b>	<b>16</b>	<b>652</b>	<b>(236)</b>	<b>10,211</b>	<b>31,216</b>
Dividends paid on ordinary shares	-	-	-	-	-	(1,952)	(1,952)
Treasury shares sold	1	-	-	-	-	-	1
Revaluation of available- for-sale investments	-	-	-	-	184	-	184
Net profit for the period	-	-	-	-	-	6,238	6,238
<b>Balance at 30 June 2004 as reported</b>	<b>20,549</b>	<b>25</b>	<b>16</b>	<b>652</b>	<b>(52)</b>	<b>14,497</b>	<b>35,687</b>
Transfers	-	-	-	(16)	-	16	-
Revaluation of available- for-sale investments	-	-	-	-	29	-	29
Share issue	206	123	-	-	-	-	329
Purchase of treasury shares	2	3	-	-	-	-	5
Net profit for the period	-	-	-	-	-	8,343	8,343
<b>Balance at 31 December 2004 as reported</b>	<b>20,757</b>	<b>151</b>	<b>16</b>	<b>636</b>	<b>(23)</b>	<b>22,856</b>	<b>44,393</b>
Restatement due to change in accounting policy (note 2)	-	-	-	-	-	(5,848)	(4,456)
<b>Balance at 31 December 2004 as restated</b>	<b>20,757</b>	<b>151</b>	<b>16</b>	<b>636</b>	<b>(23)</b>	<b>17,008</b>	<b>38,545</b>
Dividends paid on ordinary shares	-	-	-	-	-	(2,989)	(2,989)
Revaluation of available- for-sale investments	-	-	-	-	(3)	-	(3)
Net profit for the period	-	-	-	-	-	13,475	13,475
<b>Balance at 30 June 2005</b>	<b>20,757</b>	<b>151</b>	<b>16</b>	<b>636</b>	<b>(26)</b>	<b>27,494</b>	<b>49,028</b>

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*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2005*

*Interim Statement of Cash Flow for the six month period ended 30 June 2005*

	Six months ended 30 June			
	2005		2004	
	Group Ls '000	Bank Ls '000	Group Ls '000	Bank Ls '000
<b>Cash inflow/ (outflow) from operating activities</b>				
Profit before income tax	9,807	14,768	7,305	5,845
Amortisation and depreciation	955	940	769	761
Goodwill amortisation	-	-	217	217
Impairment losses	420	420	210	210
(Income)/loss from investments and subsidiaries and associates	10	(6,588)	-	-
Profit from foreign exchange fluctuations	-	(131)	-	-
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>	<b>11,192</b>	<b>9,409</b>	<b>8,501</b>	<b>7,033</b>
Decrease in prepayments and accrued income	128	131	705	580
Decrease/(increase) in other assets	114	124	(551)	(99)
(Increase) in derivative financial instruments	(121)	(121)	(72)	(72)
Increase in deferred income and accrued expense	514	677	616	452
Increase/ (decrease) in other liabilities	45	(36)	(366)	(334)
(Increase)/decrease in investments in trading and AFS securities	(23,549)	(23,048)	4,790	4,790
Decrease/(increase) in balances due from credit institutions	(180)	(181)	12,352	12,352
(Increase) in loans and advances to customers	(53,949)	(50,375)	(19,894)	(17,037)
Increase in balances due to credit institutions	1,245	1,245	6,552	6,552
Increase in deposits due to customers	102,861	101,370	46,690	46,060
<b>Increase in cash equivalents from operating activities before corporate income tax</b>	<b>38,300</b>	<b>39,195</b>	<b>59,323</b>	<b>60,277</b>
Corporate income tax paid	(1,516)	(1,491)	(852)	(849)
<b>Net cash and cash equivalents from operating activities</b>	<b>36,784</b>	<b>37,704</b>	<b>58,471</b>	<b>59,428</b>
<b>Cash inflow/ (outflow) from investing activities</b>				
Purchase of property, equipment and intangible assets	(1,144)	(971)	(1,019)	(983)
Acquisition of subsidiaries	-	(1,000)	-	(1,344)
Purchase of shares and HTM securities	(11,787)	(11,787)	(60,135)	(59,789)
Proceeds from sale of property and equipment	309	186	-	-
<b>(Decrease) in cash and cash equivalents from investing activities</b>	<b>(12,622)</b>	<b>(13,572)</b>	<b>(61,154)</b>	<b>(62,116)</b>
<b>Cash inflow/ (outflow) from financing activities</b>				
Treasury shares sold	-	-	1	1
Dividends paid	(2,989)	(2,989)	(1,952)	(1,952)
<b>(Decrease) in cash and cash equivalents from financing activities</b>	<b>(2,989)</b>	<b>(2,989)</b>	<b>(1,951)</b>	<b>(1,951)</b>
<b>Net cash inflow/ (outflow) for the period</b>	<b>21,173</b>	<b>21,143</b>	<b>(4,634)</b>	<b>(4,639)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>245,882</b>	<b>245,475</b>	<b>205,828</b>	<b>205,823</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>267,055</b>	<b>266,618</b>	<b>201,194</b>	<b>201,184</b>

*The accompanying notes on pages 11 to 14 are an integral part of these interim condensed financial statements.*

*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
*for the six month period ended 30 June 2005*

**Notes**

**Note 1 Incorporation and principal activities**

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

**Note 2 Accounting policies**

These consolidated and Bank interim condensed financial statements of A/S Rietumu Banka ("the Bank") and subsidiaries ("the Group") are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated and Bank financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004, except for changes required resulting from the amendments to IFRSs, applicable since the last reporting date. The comparative figures for 2004 have been adjusted to conform to changes in presentation in the 2005 financial statements as required by the amended IFRSs.

At 1 January 2005, the Bank adopted the amended IAS 27 and designated its investments in unlisted company equity investments (subsidiaries) as financial assets measured at cost. The Bank recognises income from the investment only to the extent that the Bank receives dividends from accumulated profits of the subsidiaries arising after the date of acquisition. In previous financial statements, investments in subsidiaries were accounted for under the equity method. Under the equity method, the Bank's share of the post-acquisition profits or losses of subsidiaries was recognised in the income statement. The comparative figures of the Bank for previous periods of 31 December 2003 and 2004 have been restated. The impact of the change is to reduce reported net profit for the six month period ended 30 June 2004 by Ls 1.4 million to Ls 4.9 million and to reduce the reported shareholders' equity at 31 December 2004 by Ls 5.8 million. In addition, the reported shareholders' equity as at 31 December 2003 has been restated by Ls 3.8 million for cumulative effect of equity method accounting.

These interim condensed financial statements should be read in conjunction with the 2004 annual financial statements.

**Note 3 Interest income**

Interest income is comprised of the following:

	<b>Six months ended 30 June 2005</b>		<b>Six months ended 30 June 2004</b>	
	<b>Group Ls'000</b>	<b>Bank Ls'000</b>	<b>Group Ls'000</b>	<b>Bank Ls'000</b>
On balances due from credit institutions	3,984	3,984	1,398	1,398
On loans granted to customers	7,230	6,587	4,721	4,024
On debt securities	2,011	2,011	1,342	1,342
<b>Total</b>	<b>13,225</b>	<b>12,582</b>	<b>7,461</b>	<b>6,764</b>

**Note 4 Interest expense**

Interest expense is comprised of the following:

	<b>Six months ended 30 June 2005</b>		<b>Six months ended 30 June 2004</b>	
	<b>Group Ls'000</b>	<b>Bank Ls'000</b>	<b>Group Ls'000</b>	<b>Bank Ls'000</b>
On deposits due to customers	1,622	1,498	996	927
On balances due to credit institutions	251	251	160	160
Other	589	589	445	445
<b>Total</b>	<b>2,462</b>	<b>2,338</b>	<b>1,601</b>	<b>1,532</b>

*A/S Rietumu banka*  
**Interim Condensed Consolidated and Bank Financial Statements**  
for the six month period ended 30 June 2005

**Note 5 Commission and fee income**

Commission and fee income is comprised of the following:

	Six months ended 30 June 2005		Six months ended 30 June 2004	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Money transfers	3,002	3,002	2,899	2,899
Cash withdrawals	182	182	196	196
Commission income from payment cards	868	868	934	934
Revenue from customer asset management and brokerage commissions	879	57	1,176	65
Commission for account servicing	391	391	205	205
Commission income from loans	476	476	304	304
Commission from documentary operations	157	157	126	126
Commission from guarantees	28	28	30	30
Other	133	132	192	172
<b>Total</b>	<b>6,116</b>	<b>5,293</b>	<b>6,062</b>	<b>4,931</b>

**Note 6 Commission and fee expense**

Commission and fee expense is comprised of the following:

	Six months ended 30 June 2005		Six months ended 30 June 2004	
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Banks	349	349	513	513
Brokerage commission	52	23	267	16
Cash withdrawals	8	8	10	10
Credit card expenses	290	290	312	312
Other commission	21	22	11	4
<b>Total</b>	<b>720</b>	<b>692</b>	<b>1,113</b>	<b>855</b>

**Note 7 Impairment allowances for credit losses**

Impairment allowances for Group and Bank are comprised of the following:

	Loans Ls '000	Investments Ls '000	Other Ls '000	Total Ls '000
<b>Allowance for impairment losses as of 31 December 2004</b>	<b>1,040</b>	<b>1,319</b>	<b>1</b>	<b>2,360</b>
Reversal of impairment losses	(356)	-	-	(356)
Net impairment losses	582	-	-	582
Currency revaluation	22	172	-	194
<b>Allowance as of 30 June 2005</b>	<b>1,288</b>	<b>1,491</b>	<b>1</b>	<b>2,780</b>

**Note 8 Loans and advances to non-banking customers**

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

	30/06/05	30/06/05	31/12/04	31/12/04
	Group Ls'000	Bank Ls'000	Group Ls'000	Bank Ls'000
Private companies	194,758	174,909	158,686	141,823
Loans to private individuals	52,242	51,176	34,365	33,887
<b>Total gross loans and advances to non-banking customers</b>	<b>247,000</b>	<b>226,085</b>	<b>193,051</b>	<b>175,710</b>
Specific loan impairment losses	(1,288)	(1,288)	(1,040)	(1,040)
<b>Loans and advances to non-banking customers, net</b>	<b>245,712</b>	<b>224,797</b>	<b>192,011</b>	<b>174,670</b>

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**Note 9 Trading portfolio**

	<b>30/06/05</b>	<b>30/06/05</b>	<b>31/12/04</b>	<b>31/12/04</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
USA government bonds	20,409	20,409	-	-
Russian corporate bonds	350	350	-	-
Shares listed on the New York stock exchange	-	-	2	-
Shares listed on the Moscow stock exchange	528	528	467	467
Shares listed on the Riga stock exchange	498	498	499	499
<b>Total</b>	<b>21,785</b>	<b>21,785</b>	<b>968</b>	<b>966</b>

**Note 10 Investment securities**

Securities available-for-sale:

	<b>30/06/05</b>	<b>30/06/05</b>	<b>31/12/04</b>	<b>31/12/04</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>	<b>Ls'000</b>
United States government bonds	10,088	10,088	8,162	8,162
US corporate bonds	584	584	516	516
Unlisted equity securities	1,078	200	515	140
<b>Total securities available-for-sale</b>	<b>11,750</b>	<b>10,872</b>	<b>9,193</b>	<b>8,818</b>

Securities held -to-maturity:

	<b>30/06/05</b>	<b>31/12/04</b>
	<b>Group and Bank</b>	<b>Group and Bank</b>
	<b>Ls'000</b>	<b>Ls'000</b>
Argentina government bonds	560	495
US government bonds	29,188	25,799
US corporate bonds	5,804	8,501
Great Britain corporate bonds	13,467	11,910
Norwegian corporate bonds	2,954	2,609
Austrian corporate bonds	1,248	1,113
German corporate bonds	5,904	7,857
Luxemburg corporate bonds	11,578	7,736
Australian corporate bonds	4,096	3,625
Japan corporate bonds	-	2,553
France corporate bonds	5,378	-
Russian corporate bonds	874	-
Holland corporate bonds	2,934	-
<b>Total securities held-to-maturity</b>	<b>83,985</b>	<b>72,198</b>
<b>Total investment securities</b>	<b>95,735</b>	<b>81,391</b>

**Note 11 Bank's investments in subsidiaries**

<u>Name</u>	<u>Business</u>	<u>Share %</u>		<u>Country of incorporation</u>
		30/06/05	31/12/04	
"RB Securities" Ltd.	Financial services	99.99	99.99	Cyprus
"DAM Property Investments" Ltd.	Construction and renovation	85.00	85.00	Latvia
"RB Investments" Ltd.	Investment projects	100.00	100.00	Latvia
"Centrus" Ltd.	Construction and renovation	100.00	100.00	Latvia
"RB Vidzeme" Ltd.	Real estate	100.00	100.00	Latvia

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Due to amendments made to IAS 27, effective for reporting periods starting on or after 1 January 2005, the equity method for the valuation of investments in subsidiary companies is no longer allowed in the parent's accounts. The Bank has designated its investments in subsidiaries as carried at cost.

During the six month period ended 30 June 2005, the shareholders of "RB Securities" Ltd, a 99.99% subsidiary of the Bank, have resolved to declare dividends in the amount of USD 11,300 (LVL 6,588) thousand. In addition, the shareholders of this subsidiary resolved to increase share capital of "RB Securities" by the same amount and thus the Bank initially recognised a liability for the share capital increase. The Bank and the subsidiary agreed to offset the dividend receivable from the subsidiary against the Bank's payable for the increase in share capital as at 30 June 2005.

**Note 12 Related party transactions**

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

Loans and advances issued to related parties were as follows:

	<b>30 June 2005</b> <b>Ls'000</b>
<b>Loans</b>	
Loans at the beginning of period	2,404
Loans issued during period	10,147
Transfers	(46)
Loan repayment during the year	(4,606)
Loans as at end of period	<u><u>7,899</u></u>
Interest income earned	62
<b>Deposits</b>	
Deposits at the beginning of period	2,826
Deposits received during the period	150,363
Transfers	112
Deposits repaid during the year	(145,477)
Deposits at the end of period	<u><u>7,824</u></u>
Interest expense on deposits	92
Guarantees and credit lines issued	<u><u>574</u></u>

**Note 13 Memorandum items**

Funds under Trust Management in the amount of LVL 109,047 thousand represent securities and other assets managed by the Group on behalf of customers. The Group earns commission income for holding such securities. The Group is not subject to interest, credit and currency risk with respect of these securities in accordance with the agreements with customers.

**Legal Proceedings** As at 30 June 2005 there were two legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 956 thousand. Provisions are made for claims where management on the basis of professional advice to the Bank, considers that it is likely that a loss may eventuate (2004:7 outstanding legal proceedings against the Bank). As of 30 June 2005, the amount of claims provision was nil (2004: nil).

**Note 14 Capital adequacy**

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

The Group's risk based capital adequacy ratio, as at 30 June 2005 was 11,84% (14,54% if net profit for the 6 months period is included in the regulatory capital), which is above the minimum ratio recommended by the 1998 Basle Committee guidelines of 8%. In accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 8,85% (12,67%). The Finance and Capital Market Commission requires Latvian banks to maintain a capital adequacy ratio of 8% of risk-weighted assets.