

A/S RIETUMU BANKA
Interim
Consolidated and Bank
Financial Statements
for the six month period
ended 30 June 2007

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Contents

Management Commentary	3
Auditor's Report	5 – 6
Interim Consolidated and Bank Financial Statements:	
Consolidated and Bank Income Statement	7
Consolidated and Bank Balance Sheet and Memorandum Items	8 – 9
Consolidated and Bank Statement of Changes in Shareholders' Equity	10 – 11
Consolidated and Bank Statement of Cash Flow	12
Notes to the Interim Consolidated and Bank Financial Statements	13 – 17

Management Commentary

Operating and financial review

Over the six months of 2007 Rietumu Bank has continued to develop dynamically and demonstrated impressive growth rate.

In May 2007 Rietumu Bank celebrated the 15th anniversary of its founding. The Bank grew to become one of the most effective and profitable banks in Latvia with a healthy-conservative lending policy, viable product development and customer management strategy.

For further expanding its business activity the Bank attracted a EUR 120 million commercial syndicated loan with participation from 19 banks. The commercial syndicated loan was granted for three years at interest rate EURIBOR + 0.75%. This transaction was the first commercial three-year syndication in the Baltic States of this size extended to a private bank. The attracted funds demonstrate the growing confidence of global investors in Rietumu and prove the Bank's dynamic growth. The attracted resources will be used for lending and investment projects in Latvia and abroad. This transaction has already been the third syndicated loan for Rietumu Bank.

In the first half of 2007 important changes occurred in the Executive Board of the Bank. Mr. Rolf Fuls resigned from the position of First Vice-president and Member of the Executive Board of the Bank. Mr. Fuls plans to start up his own business while retaining close links with Rietumu as its shareholder. The former Senior Vice-president Alexander Pankov was approved for the position of the First Vice-president. Thus, the Executive Board of Rietumu Bank currently consists of four members: Alexander Kalinovski (Chairman of the Board, President), Alexander Pankov (Member of the Board, First Vice-president), Dmitry Pyshkin (Member of the Board, Senior Vice-president) and Janis Muizhnieks (Member of the Board, Senior Vice-president).

The construction of the Bank's new headquarters continued. The exterior building skin of Rietumu Capital Centre was completed. Rietumu Capital Centre, situated in the downtown of Riga, capital of Latvia, in the fast growing business district, is heralded as the first Class A+++ development in Latvia, and is set to be the largest green architecture project in the Baltic States.

Rietumu Bank expanded the representative offices network. In February the Bank opened its representative office in Romania's capital city – Bucharest. Until 2010 was extended the accreditation of Rietumu Bank's representative office in Belarus, in Minsk. Currently the Bank has altogether eight representative offices: in Moscow, Saint Petersburg, Minsk, Kiev, Alma-Ata, Vilnius, Prague and Bucharest.

Rietumu Bank also continued its social commitment programme focusing on supporting significant projects in the realm of culture and arts. In the first half of 2007 the Bank traditionally supported the newspaper's "Diena" Annual Culture Award, International Festival of Fantasy Films (the project of film forum "Arsenal"), unique exhibition of Sevres porcelain, Russian Theatre Festival "Golden Masque" as well as retro-car rally around Latvia's castles and one of the most important cycling competitions in Latvia – Riga Grand Prix.

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Financial results, consolidated

	30 June 2007 (6 months)	31 December 2006	30 June 2006 (6 months)	31 December 2005	30 June 2005 (6 months)
At year end (LVL'000)					
Total assets	993,446	921,507	762,712	704,197	716,375
Loans and advances to customers	476,948	374,695	302,694	256,276	245,712
Due to customers	749,327	692,264	655,089	602,578	655,844
Total shareholders' equity	104,193	96,158	78,527	71,942	49,855
For the year (LVL'000)					
Net profit before tax	21,548	33,937	13,711	22,052	9,807
Net profit after tax	18,149	29,584	11,945	18,960	8,467
Operating income	33,464	55,279	25,138	42,978	19,166

Ratios

Capital adequacy

Basle	13.07%	15.77%	14.40%	16.14%	11.84%
Financial & Capital Markets Commission	11.90%	14.85%	12.95%	13.99%	8.85%

During the first 6 months of 2007, total assets grew to LVL 993 million from LVL 922 million on 31 December 2006. This represents a growth of 8% for 6 months. Due to customers balances increased by 8% from LVL 692 million on 31 December 2006 to LVL 749 million on 30 June 2007. Current accounts and term deposits were LVL 508 million and LVL 241 million respectively (31 December 2006: LVL 523 million and LVL 169 million respectively).

The Bank's group net profit before tax for the 6 months ended 30 June 2007 was LVL 22 million (6 months ended 30 June 2006: LVL 14 million) representing an increase of LVL 7 million. Total shareholders equity increased from LVL 96 million on 31 December 2006 to LVL 104 million on 30 June 2007.

The Bank paid dividends for the years ended 2001, 2002, 2003, 2004, 2005 and 2006. The Bank's management expects to continue this dividend policy for the year ending 31 December 2007. 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 2007 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 2007



Leonid Esterkin
Chairman of the Council



Alexander Kalinovsky
Chairman of the Executive Board

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Auditor's Report



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Independent Auditors' Report

To the shareholders of A/S Rietumu Banka

We have audited the accompanying unconsolidated interim balance sheet of A/S Rietumu Banka (the Bank) as of 30 June 2007 and the related unconsolidated interim statements of income, changes in shareholder's equity and cash flows for the six months period then ended and other explanatory notes, as set out on pages 7 to 17 (the unconsolidated interim financial information). We have also audited the accompanying consolidated interim balance sheet of A/S Rietumu Banka and subsidiaries (the Group) as of 30 June 2007 and the related consolidated interim statements of income, changes in equity and cash flows for the six months period then ended and other explanatory notes, as set out on pages 7 to 17 (the consolidated interim financial information).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this unconsolidated interim financial information and consolidated interim financial information in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial information that is free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on this unconsolidated interim financial information and consolidated 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 unconsolidated interim financial information and consolidated interim financial information is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated interim financial information and consolidated interim financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the unconsolidated interim financial information and consolidated interim financial information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's and Group's preparation and fair presentation of the unconsolidated interim financial information and consolidated 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 Bank's and Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007



made by management, as well as evaluating the overall presentation of the unconsolidated interim financial information and consolidated 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 interim unconsolidated financial information is prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

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

Patrick Querubin
KPMG Baltics SIA
License No 55
Riga, Latvia
8 August 2007

Valda Użāne
Sworn Auditor
Certificate No. 4

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Interim Income Statement for the six month period ended 30 June 2007

	Notes	Six months ended 30 June			
		2007		2006	
		Group	Bank	Group	Bank
		LVL '000	LVL '000	LVL '000	LVL '000
Interest income	4	26,865	26,812	19,426	19,102
Interest expense	5	(8,872)	(8,891)	(4,518)	(4,612)
Net interest income		17,993	17,921	14,908	14,490
Commission and fee income	6	6,461	6,460	6,091	5,805
Commission and fee expense	7	(1,683)	(1,738)	(1,130)	(1,079)
Net commission and fee income		4,778	4,722	4,961	4,726
Profit on securities trading and foreign exchange, net		6,131	5,984	4,793	4,342
Dividends received		19	19	19	627
Other operating income	8	4,543	4,358	457	360
Operating income		33,464	33,004	25,138	24,545
Administrative expense		(10,083)	(9,803)	(9,886)	(9,431)
Amortisation and depreciation expense		(973)	(967)	(1,171)	(1,137)
Other operating expense		(109)	(38)	(288)	(18)
Impairment losses	9	(770)	(770)	(172)	(172)
Release of previously established allowance	9	19	19	90	90
Profit before income tax		21,548	21,445	13,711	13,877
Income tax expense		(3,399)	(3,386)	(1,766)	(1,743)
Profit for the period		18,149	18,059	11,945	12,134
Basic earnings per share		0.81	0.80	0.52	0.54

The accompanying notes on pages 13 to 17 are an integral part of these interim consolidated and bank financial statements.

The interim consolidated and bank financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 8 August 2007 and signed on their behalf by:



Leonid Esterkin
Chairman of the Council



Alexander Kalinovsky
Chairman of the Executive Board

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Interim Balance Sheet and Memorandum Items as at 30 June 2007

	Notes	30 June 2007		31 December 2006	
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
ASSETS					
Cash and balances with central bank		68,523	68,523	61,953	61,913
Balances due from credit institutions		257,442	256,944	360,653	360,237
- <i>demand deposits</i>		169,141	168,643	206,188	205,772
- <i>other deposits</i>	10	88,301	88,301	154,465	154,465
Financial assets held for trading	11	109,765	108,311	36,901	36,454
- <i>bonds and other fixed income securities</i>		103,304	101,850	32,802	32,801
- <i>shares and other non-fixed income securities</i>		5,332	5,332	3,023	2,577
- <i>derivative financial assets</i>		1,129	1,129	1,076	1,076
Financial assets available-for-sale	12	2,122	762	1,851	777
- <i>bonds and other fixed income securities</i>		524	524	538	538
- <i>shares and other non-fixed income securities</i>		1,598	238	1,313	239
Loans to non-banking customers	13	476,948	476,012	374,695	373,633
Held-to-maturity investments	14	51,114	51,114	57,506	57,506
Accrued income and deferred expenses		1,055	867	804	720
Property, plant and equipment		20,893	20,864	19,762	19,727
Intangible assets		3,520	3,519	3,710	3,708
Investments in subsidiaries and associated entities	15	321	13,955	310	13,955
Other assets		1,743	1,630	3,362	2,584
Total assets		993,446	1,002,501	921,507	931,214

The accompanying notes on pages 13 to 17 are an integral part of these interim consolidated and bank financial statements.

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Interim Balance Sheet and Memorandum Items as at 30 June 2007

	30 June 2007		31 December 2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
LIABILITIES				
Balances due to other banks	131,868	131,868	126,066	126,066
- demand deposits	11,573	11,573	4,600	4,600
- term deposits	120,295	120,295	121,466	121,466
Balances due to customers	749,327	758,435	692,264	702,337
- demand deposits	507,985	517,093	523,495	533,583
- term deposits	241,342	241,342	168,769	168,754
Derivatives	21	21	-	-
Deferred income and accrued expense	2,574	2,421	1,286	954
Current tax liability	1,281	1,281	544	542
Deferred tax liability	978	978	1,809	1,809
Other liabilities	3,204	3,197	3,380	3,355
Total liabilities	889,253	898,201	825,349	835,063
SHAREHOLDERS' EQUITY				
Paid-in share capital	22,500	22,500	22,500	22,500
Share premium	4,809	4,809	4,809	4,809
Legal reserve	16	16	16	16
Revaluation reserve - property	2,138	2,138	4,623	4,623
Currency translation reserve	534	-	738	-
Profit for the period	18,149	18,059	29,584	29,622
Retained earnings	56,047	56,778	33,888	34,581
Total shareholders' equity	104,193	104,300	96,158	96,151
Total liabilities and shareholders' equity	993,446	1,002,501	921,507	931,214
MEMORANDUM ITEMS				
Contingent liabilities (guarantees)	10,091	10,091	10,782	10,782
Letters of credit	5,506	5,506	12,881	12,881
Financial commitments (unutilized credit lines)	93,802	93,802	57,834	58,434
	109,399	109,399	81,497	82,097

The accompanying notes on pages 13 to 17 are an integral part of these interim consolidated and bank financial statements.

The interim consolidated and bank financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 8 August 2007 and signed on their behalf by:



Leonid Esterkin
Chairman of the Council



Alexander Kalinovskiy
Chairman of the Executive Board

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Interim Statement of Changes in Shareholders' Equity for the six month period ended 30 June 2007

GROUP

	Paid-in share capital LVL '000	Share premium LVL'000	Legal reserves LVL '000	Currency translation reserve LVL '000	Revaluation reserve – property LVL '000	Retained earnings LVL '000	Total shareholders' equity LVL '000
Balance at 31 December 2005	22,500	4,809	16	1,064	4,739	38,814	71,942
Dividends paid on ordinary shares	-	-	-	-	-	(5,063)	(5,063)
Currency translation reserve	-	-	-	(297)	-	-	(297)
Revaluation of available-for-sale investments	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	11,945	11,945
Balance at 30 June 2006	22,500	4,809	16	767	4,739	45,696	78,527
Transfers	-	-	-	-	(116)	137	21
Revaluation reserve	-	-	-	(29)	-	-	(29)
Net profit for the period	-	-	-	-	-	17,639	17,639
Balance at 31 December 2006	22,500	4,809	16	738	4,623	63,472	96,158
Dividends paid on ordinary shares	-	-	-	-	-	(7,425)	(7,425)
Disposal of fixed asset	-	-	-	-	(2,485)	-	(2,485)
Currency translation reserve	-	-	-	(204)	-	-	(204)
Net profit for the period	-	-	-	-	-	18,149	18,149
Balance at 30 June 2007	22,500	4,809	16	534	2,138	74,196	104,193

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A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Interim Statement of Changes in Shareholders' Equity for the six month period ended 30 June 2007

BANK

	Paid-in share capital LVL '000	Share premium LVL'000	Legal reserves LVL '000	Revaluation reserve – property LVL '000	Retained earnings LVL '000	Total shareholders' equity LVL '000
Balance at 31 December 2005	22,500	4,809	16	4,739	39,507	71,571
Dividends paid on ordinary shares	-	-	-	-	(5,063)	(5,063)
Net profit for the period	-	-	-	-	12,134	12,134
Balance at 30 June 2006	22,500	4,809	16	4,739	46,578	78,642
Transfers	-	-	-	(116)	137	21
Net profit for the period	-	-	-	-	17,488	17,488
Balance at 31 December 2006	22,500	4,809	16	4,623	64,203	96,151
Dividends paid on ordinary shares	-	-	-	-	(7,425)	(7,425)
Disposal of fixed asset	-	-	-	(2,485)	-	(2,485)
Net profit for the period	-	-	-	-	18,059	18,059
Balance at 30 June 2007	22,500	4,809	16	2,138	74,837	104,300

The accompanying notes on pages 13 to 17 are an integral part of these interim consolidated and bank financial statements.

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Interim Statement of Cash Flow for the six month period ended 30 June 2007

	Six months ended 30 June			
	2007		2006	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Cash inflow/ (outflow) from operating activities				
Profit before income tax	21,548	21,445	13,711	13,877
Amortisation and depreciation	973	967	1,171	1,137
Impairment losses	751	751	82	82
(Profit)/loss from sales of fixed and intangible assets	(4,090)	(4,090)	(129)	20
Income from investments and subsidiaries	-	-	(297)	-
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	18,182	19,073	14,538	15,116
Decrease in accrued income and deferred expenses	(251)	(147)	(166)	87
Decrease/ (increase) in other assets	1,617	952	(731)	(609)
(Increase) in derivative financial instruments	(32)	(32)	(63)	(63)
Increase in deferred income and accrued expense	1,288	1,467	566	772
Increase/ (decrease) in other liabilities	(176)	(158)	(1,518)	(765)
(Increase)/decrease in investments in trading and AFS securities	(73,123)	(71,789)	(33,387)	(33,038)
Decrease/(increase) in balances due from credit institutions	66,164	66,164	(74,841)	(74,841)
(Increase) in loans and advances to customers	(103,002)	(103,128)	(46,593)	(50,050)
Increase in held-to-maturity investments	6,392	6,392	19,020	19,020
Increase in financial liabilities at amortised cost - deposits	55,731	54,927	46,465	47,875
Increase in cash equivalents from operating activities before corporate income tax	(26,212)	(26,279)	(76,710)	(76,496)
Corporate income tax paid	(3,004)	(2,989)	(1,717)	(1,694)
Net cash and cash equivalents from operating activities	(29,216)	(29,268)	(78,427)	(78,190)
Cash inflow/ (outflow) from investing activities				
Purchase of property, equipment and intangible assets	(6,998)	(6,998)	(2,240)	(2,240)
Payments for acquisition of shares in associated companies	(11)	-	-	(48)
Sale of investment in subsidiary	-	-	315	246
Proceeds from sale of property and equipment	6,200	6,199	228	118
(Decrease) in cash and cash equivalents from investing activities	(809)	(799)	(1,697)	(1,924)
Cash inflow/ (outflow) from financing activities				
Dividends paid	(7,425)	(7,425)	(3,383)	(3,383)
(Decrease) in cash and cash equivalents from financing activities	(7,425)	(7,425)	(3,383)	(3,383)
Net cash inflow/ (outflow) for the period	(37,450)	(37,492)	(83,507)	(83,497)
Cash and cash equivalents at the beginning of the period	263,541	263,085	268,950	268,327
Cash and cash equivalents at the end of the period	226,091	225,593	185,443	184,830

The accompanying notes on pages 13 to 17 are an integral part of these interim consolidated and bank financial statements.

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

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 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 consolidated and Bank financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006. The Group and the Bank in the Consolidated and Bank Financial Statements for the year ended 31 December 2006 implemented for the first time new regulations (dated February 24, 2006) on preparation of financial statements issued by the Financial and Capital Market Commission. In the Interim Consolidated and Bank Financial Statements for the six month period ended 30 June 2007 accrued interest is aggregated with loans and other deposits, deferred loan fees with loans, accrued expenses with deposits, and loan origination commission income with interest income. As a result separate balance sheet items were reclassified. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

These interim financial statements do not include all of the information required for the complete set of annual financial statements, and should be read in conjunction with the consolidated and bank financial statements of the Rietumu Bank Group as at and for the year ended 31 December 2006.

Note 3 Estimates

The preparation of interim financial statements requires management to make judgments, 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 interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated and Bank financial statements as at and for the year ended 31 December 2006.

Note 4 Interest income

Interest income is comprised of the following:

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
On loans granted to customers	17,072	17,019	11,353	11,029
On balances due from credit institutions	8,176	8,176	6,350	6,350
On debt securities	1,584	1,584	1,723	1,723
Other	33	33	-	-
Total	<u>26,865</u>	<u>26,812</u>	<u>19,426</u>	<u>19,102</u>

Note 5 Interest expense

Interest expense is comprised of the following:

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
On deposits due to customers	4,927	4,946	3,238	3,332
On balances due to credit institutions	3,225	3,225	621	621
Other	720	720	659	659
Total	<u>8,872</u>	<u>8,891</u>	<u>4,518</u>	<u>4,612</u>

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Note 6 Commission and fee income

Commission and fee income is comprised of the following:

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Money transfers	3,382	3,382	3,565	3,565
Commission income from payment cards	1,422	1,422	1,260	1,260
Revenue from customer asset management and brokerage commissions	587	586	494	206
Commission from documentary operations	150	150	183	183
Cash withdrawals	162	162	178	178
Commission from guarantees	70	70	157	157
Commission for account servicing	142	142	128	128
Other	546	546	126	128
Total	6,461	6,460	6,091	5,805

Note 7 Commission and fee expense

Commission and fee expense is comprised of the following:

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit card expenses	499	499	435	435
Banks	305	305	338	338
Brokerage commission	131	186	19	15
Cash withdrawals	5	5	6	6
Other commission	743	743	332	285
Total	1,683	1,738	1,130	1,079

Note 8 Other operating income

In March 2007 the Bank sold the building located at 16 Smilšu Street and recognised a gain of LVL 5,953 thousand. Net gain on disposal of the asset shown as other operating income is LVL 4,028 thousand.

Note 9 Impairment allowances for credit losses

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

	Loans	Investments	Other	Total
	LVL '000	LVL '000	LVL '000	LVL '000
Allowance for impairment losses as of 31 December 2006	942	1,371	391	2,704
Reversal of impairment losses	(19)	-	-	(19)
Net impairment losses	768	-	2	770
Written off assets	(31)	-	(260)	(291)
Currency revaluation	(6)	(36)	-	(42)
Allowance as of 30 June 2007	1,654	1,335	133	3,122

Note 10 Other deposits

Other deposits include LVL 1,701 thousand pledged as collateral at 30 June 2007 and LVL 7,372 thousand at 31 December 2006.

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Note 11 Financial assets held for trading

	30 June 2007	30 June 2007	31 December 2006	31 December 2006
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
USA government bonds	91,690	91,690	32,440	32,440
Russian government bonds	19	19	20	20
German government bonds	372	372	-	-
Brazilian government bonds	1	-	1	-
Russian corporate bonds	2,938	1,940	341	341
USA corporate bonds	3,504	3,504	-	-
Holland corporate bonds	3,531	3,531	-	-
Luxemburg corporate bonds	53	-	-	-
Ireland corporate bonds	216	-	-	-
Cyprus corporate bonds	186	-	-	-
Kazakhstan corporate bonds	793	793	-	-
Shares listed on the Moscow stock exchange	174	174	927	927
Shares listed on the Riga stock exchange	382	382	412	412
Investments in shares fund	1,263	1,263	1,684	1,238
Investment in Solys	3,514	3,514	-	-
Derivative financial assets	1,129	1,129	1,076	1,076
Total	<u>109,765</u>	<u>108,311</u>	<u>36,901</u>	<u>36,454</u>

Note 12 Financial assets available-for-sale

Securities available-for-sale:

	30 June 2007	30 June 2007	31 December 2006	31 December 2006
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Debt securities at fair value				
- US corporate bonds	524	524	538	538
Unlisted equity securities	1,598	238	1,313	239
Total securities available-for-sale	<u>2,122</u>	<u>762</u>	<u>1,851</u>	<u>777</u>

Note 13 Loans and advances to non-banking customers

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

	30 June 2007	30 June 2007	31 December 2006	31 December 2006
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Private companies	377,508	376,572	286,452	285,390
Loans to private individuals	101,094	101,094	89,185	89,185
Total gross loans and advances to non- banking customers	<u>478,602</u>	<u>477,666</u>	<u>375,637</u>	<u>374,575</u>
Specific loan impairment losses	(1,654)	(1,654)	(942)	(942)
Loans and advances to non-banking customers, net	<u>476,948</u>	<u>476,012</u>	<u>374,695</u>	<u>373,633</u>

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Note 14 Held-to-maturity investments

	30 June 2007	31 December 2006
	Group and Bank	Group and Bank
	LVL'000	LVL'000
Listed debt securities – at amortized cost		
US government bonds	15,829	18,121
<i>Argentina government bonds - cost</i>	<i>1,836</i>	<i>1,885</i>
<i>Provision for impairment of Argentina government bonds</i>	<i>(1,335)</i>	<i>(1,371)</i>
Carrying value of Argentina government bonds	501	514
US corporate bonds	5,278	5,335
IBRD	1,114	1,091
Great Britain corporate bonds	9,310	12,960
Luxemburg corporate bonds	5,167	5,301
Holland corporate bonds	2,621	2,694
Australian corporate bonds	3,654	3,752
France corporate bonds	5,215	5,247
Russian corporate bonds	2,425	2,491
Total securities held-to-maturity	<u>51,114</u>	<u>57,506</u>

Note 15 Investments in subsidiaries and associated entities

<u>Name</u>	<u>Business</u>	30 June 2007		31 December 2006		<u>Country of incorporation</u>
		Amount of ownership %	Amount of investment LVL'000	Amount of ownership %	Amount of investment LVL'000	
Bank's subsidiaries:						
RB Securities Ltd.	Financial services	99.99	7,700	99.99	7,700	Cyprus
SIA "RB Investments"	Investments	100.00	5,000	100.00	5,000	Latvia
A/s "RB Securities Latvia" IBS	Financial services	100.00	455	100.00	455	Latvia
A/s "RB Asset Management" IPS	Financial services	100.00	700	100.00	700	Latvia
SIA "RB Drošība"	Security services	100.00	50	100.00	50	Latvia
SIA "RB Vidzeme"	-	100.00	50	100.00	50	Latvia
			<u>3,955</u>		<u>13,955</u>	
Group's associated entities:						
SIA Eco Diesel	Bio-diesel production	51.60	258	51.60	258	Latvia
SIA Dzelzceļu tranzīts	Railway declaration services	45.61	32	45.61	32	Latvia
SIA AED Rail Service	Information services	43.00	20	3.00	20	Latvia
OOO Interrent	Real estate	100.00	11	-	-	Belarus
			<u>321</u>		<u>310</u>	

Note 16 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.

A/S Rietumu banka
Interim Consolidated and Bank Financial Statements
for the six month period ended 30 June 2007

Loans and advances issued to related parties were as follows:

	30 June 2007 LVL'000
Loans	
Loans at the beginning of period	3,866
Loans issued during period	60,527
Transfers	(1,156)
Loan repayment during the year	(57,390)
Loans as at end of period	<u><u>5,847</u></u>
Interest income earned	131
Deposits	
Deposits at the beginning of period	10,257
Deposits received during the period	58,943
Transfers	(208)
Deposits repaid during the year	(53,744)
Deposits at the end of period	<u><u>15,248</u></u>
Interest expense on deposits	159
Guarantees and credit lines issued	<u>1,228</u>

Note 17 Memorandum items

Funds under Trust Management in the amount of LVL 201,576 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 2007 there were four legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 874 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 (30 June 2006: 2 outstanding legal proceedings against the Bank). As of 30 June 2007, the amount of claims provision was LVL 408 thousand (30 June 2006: nil).

Note 18 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 2007 was 13.07% (15.96% 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 11.90% (14.52%). The Finance and Capital Market Commission requires Latvian banks to maintain a capital adequacy ratio of 8% of risk-weighted assets.