RIETUMU Banka AS

Condensed Interim Financial Statements

for the six month period ended

30 June 2009

Contents

Management Report

Operating Results

Notwithstanding the effects of the world financial crisis and unfavourable economic conditions in Latvia, in the first half of 2009 Rietumu Bank continued to successfully operate in line with its corporate strategy, maintaining its financial strength and the leading position in the Latvian banking sector.

Despite the fact that many leading Latvian banks incurred significant losses in the first six months of 2009, Rietumu Bank remained soundly profitable, reporting the largest net income in the Latvian banking sector.

In the first half of 2009, our bank continued to develop and offer new products and services, especially in the areas of trade finance and asset management. Understanding the need of mid-size enterprises to increase their working capital, Rietumu Bank started to offer several new short-term lending and trade financing products.

We introduced new, more flexible, term deposit types, including term deposits with increasing and floating interest rates, flexible term deposits as well as new savings accounts. These products allow our customers to make convenient and secure investments tailor made to accommodate their personal or corporate needs.

Rietumu Bank’s fully-owned subsidiary RB Asset Management offered customers new structured notes exposed to US dollar, natural gas, etc., as well as a number of investment ideas, including Russian stock market correction, British pound appreciation and pharmacy sector growth.

Rietumu Bank continued to improve customer services to allow all our customers to have the most convenient, personal and secure contact with the Bank. Thus, we extended a free of charge specialised “Personal Manager” service to a much wider group of our corporate customers. The service ensures direct contact with personal managers for a wide range of our clients and allows every customer personal access to customised, high-quality financial solutions. Most account servicing and transactional fees were reduced in the first half of 2009.

In the area of banking technology, Rietumu Bank introduced the new system of universal remote customer identification – Rietumu ID – one of the most sophisticated, user-friendly and at the same time highly secure systems in the market. All our customers can receive access to the new system free of charge.

Operational functions of Rietumu BankWorld were expanded, including electronic savings account opening and management, payment cards ordering.

Rietumu Bank continued our social commitment and charity programme focusing on children’s medicine, education, arts and sports. In the first half of 2009 Rietumu Bank’s Charity Fund in collaboration with the newspaper “Diena” finalised the “Searching for the Best Nurse” project and presented awards to the best children’s nurses throughout Latvia. Rietumu Bank’s Charity Fund supported the 26th Riga Cycling Marathon, the 4th Riga International Fantasy Film Festival and announced a scholarship competition for secondary school graduates from the rural district of Latgale as well as sponsored a Russian art exhibition of the 19th/20th century in the Latvian National Museum of Art.

Financial results

	30 June 2009 (6 months)	31 December 2008	30 June 2008 (6 months)	31 December 2007	30 June 2007 (6 months)
At period end (LVL'000)					
Total assets	1,019,244	1,117,276	1,133,384	1,226,059	1,002,501
Loans and advances to customers	534,444	571,057	603,631	598,699	476,012
Due to customers	602,891	670,611	763,060	885,879	758,435
Total shareholder's equity	134,535	132,497	125,610	122,210	104,300
For the period (LVL'000)					
Profit before income tax	8,669	23,411	13,881	40,290	21,445
Profit for the period	7,103	20,494	12,175	34,755	18,059
Operating income	26,483	67,750	30,328	64,565	33,004
Capital adequacy	15.68%	14.72%	13.99%	14.04%	14.52%

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Independent Auditors' Report

To the Shareholders of RIETUMU Banka AS

Report on the Condensed Interim Financial Statements

We have audited the accompanying condensed interim financial statements of Rietumu Banka AS, which comprise the statement of financial position as at 30 June 2009, the related income statement and statements of comprehensive income, changes in shareholders' equity and cash flows for the six month period ended 30 June 2009, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 27.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with IAS 34 *Interim Financial Reporting*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these condensed interim financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the interim financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the interim financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the interim financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the condensed interim financial statements of Rietumu Banka AS as at and for the six month period ended 30 June 2009 are prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

KPMG Baltics SIA
Licence Nr. 55

Stephen Young
Chairman of the Board
Riga, Latvia
24 August 2009

Inga Lipšāne
Sworn Auditor
Certificate No. 112

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

CONDENSED INTERIM INCOME STATEMENT

For the six month period ended 30 June 2009

		Six months ended 30 June	
	Note	**2009 ’000 LVL**	**2008 ’000 LVL**
Interest income	7	21,995	32,881
Interest expense	7	(7,199)	(13,746)
Net interest income		**14,796**	**19,135**
Fee and commission income	8	7,224	7,908
Fee and commission expense	9	(1,583)	(1,875)
Net fee and commission income		**5,641**	**6,033**
Net gain/(loss) on financial instruments at fair value through profit or loss		60	(789)
Net foreign exchange income		4,025	5,166
Net realised gain/(loss) on available-for-sale assets		3	-
Other income/(expenses), net		1,958	756
		26,483	**30,301**
Impairment losses	10	(8,321)	(3,581)
General administrative expenses		(9,493)	(12,839)
Profit before income tax		**8,669**	**13,881**
Income tax expense		(1,566)	(1,706)
Profit for the period		**7,103**	**12,175**

The condensed interim financial statements as set out on pages 6 to 27 are authorised for issue by:

Leonid Esterkin
Chairman of the Council

Alexander Kalinovski
Chairman of the Executive Board

The accompanying notes on pages 12 to 27 are an integral part of the condensed consolidated interim financial statements.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2009

		Six months ended 30 June	
	Note	**2009 ’000 LVL**	**2008 ’000 LVL**
Profit for the period		**7,103**	**12,175**
Other comprehensive income			
Changes in fair value of available-for-sale financial assets	16	129	-
Income tax related to components of other comprehensive income	11	(19)	-
Other comprehensive income for the period		**110**	**-**
Total comprehensive income for the period		**7,213**	**12,175**

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Chairman of the Council	Chairman of the Executive Board

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CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Note	30 June 2009 ’000 LVL	31 Dec 2008 ’000 LVL
ASSETS			
Cash and Due from Central Bank	12	43,220	45,547
Financial instruments at fair value through profit or loss	13	125,501	154,314
Loans and advances due from financial institutions	14	245,652	237,313
Loans and advances due from customers	15	534,444	571,057
Available-for-sale financial assets	16	17,901	10,779
Held-to-maturity investments	17	5,029	20,869
Investments in associates and subsidiaries		16,497	16,197
Property and equipment	18	5,137	5,684
Intangible assets	19	2,903	3,135
Current tax asset		1,738	3,903
Investment property	20	5,325	5,100
Non-current assets held for sale	21	-	27,092
Other assets	21	15,897	16,286
Total Assets		**1,019,244**	**1,117,276**

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Note	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	13	392	511
Deposits and balances due to financial institutions	22	149,342	153,708
Current accounts and deposits due to customers	23	602,891	670,611
Amounts payable under repurchase agreements		124,934	150,097
Provisions		391	387
Other borrowed funds	24	905	1,299
Deferred tax liability		816	595
Other liabilities		5,038	7,571
Total Liabilities		**884,709**	**984,779**
Share capital		22,500	22,500
Share premium		4,809	4,809
Revaluation reserve – property		1,835	1,835
Revaluation reserve – AFS		110	-
Other reserves		16	16
Retained earnings		105,265	103,337
Total Shareholders' Equity		**134,535**	**132,497**
Total Liabilities and Shareholders' Equity		**1,019,244**	**1,177,276**
Commitments and Contingencies	25	49,451	71,302

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CONDENSED INTERIM STATEMENT OF CASH FLOW

For the six month period ended 30 June 2009

	Six months ended 30 June	
	2009 ’000 LVL	**2008 ’000 LVL**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	8,669	13,881
Amortisation and depreciation	1,063	935
Increase / (release) provisions	4	(29)
Loss on sale of property and equipment	-	44
Impairment losses (recoveries)	8,321	3,581
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	**18,057**	**18,412**
(Increase) / decrease in loans due from financial institutions	(39,599)	30,354
(Increase) / decrease in loans due from customers and receivables	28,488	(8,231)
(Increase) decrease in available-for-sale financial assets	(6,993)	(19,238)
(Increase) in assets and liabilities at fair value through profit or loss	28,694	(26)
(Increase) / decrease in non-current assets held for sale	27,092	(5,189)
Decrease in other assets	427	821
Increase / (decrease) in balances due to credit institutions	(5,274)	2,676
(Decrease) in balances due to customers	(67,720)	(123,004)
Increase / (decrease) in amounts payable under repurchase agreements	(25,163)	16,170
Increase / (decrease) in other liabilities	(2,533)	499
Decrease in cash and cash equivalents from operating activities before corporate income tax	**(44,524)**	**(86,756)**
Corporate income tax paid	185	(3,755)
Net cash and cash equivalents used in operating activities	**(44,339)**	**(90,511)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(426)	(6,084)
Proceeds from property and equipment	287	-
Acquisition of equity investments in other entities and subsidiaries	(300)	(225)
Increase in investment property	(63)	-
Repayment upon maturity of held-to-maturity investments	15,915	10,253
Increase in cash and cash equivalents from investing activities	**15,413**	**3,944**
CASH FLOW FROM FINANCING ACTIVITIES		
(Decrease) / increase in borrowed funds	(394)	1,114
Dividends paid	(5,175)	(8,775)
Decrease in cash and cash equivalents from financing activities	**(5,569)**	**(7,661)**
Net cash flow for the period	**(34,495)**	**(94,228)**
Cash and cash equivalents at the beginning of the period	**270,809**	**326,052**
Cash and cash equivalents at the end of the period	**236,314**	**231,824**

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six month period ended 30 June 2009

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve-property '000 LVL	Revaluation reserve – AFS financial aseets '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total equity '000 LVL
Balance at 1 January 2008	22,500	4,809	3,284	-	16	91,601	**122,210**
Dividends paid	-	-	-	-	-	(8,775)	**(8,775)**
Total comprehensive income	-	-	-	-	-	12,175	**12,175**
Balance at 30 June 2008	22,500	4,809	3,284	-	16	95,001	**125,610**
Total comprehensive income	-	-	(1,449)	-	-	8,336	**6,887**
Balance at 31 December 2008	**22,500**	**4,809**	**1,835**	**-**	**16**	**103,337**	**132,497**
Dividends paid	-	-	-	-	-	(5,175)	**(5,175)**
Total comprehensive income	-	-	-	110	-	7,103	**7,213**
Balance at 30 June 2009	**22,500**	**4,809**	**1,835**	**110**	**16**	**105,265**	**134,535**

The condensed interim financial statements as set out on pages 6 to 27 are authorised for issue by:

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Chairman of the Council

Alexander Kalinovsky
Chairman of the Executive Board

The accompanying notes on pages 12 to 27 are an integral part of the condensed interim financial statements.

1 Background

JSC "Rietumu Banka" was established in the Republic of Latvia as a joint stock company and was granted its general banking licence in 1992.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC"). The registered address of the Bank's head office is Vesetas Street 7, Riga, Latvia.

2 Basis of preparation

(a) Statement of compliance

These condensed interim financial statements of the Bank are prepared in accordance with International Financial Reporting Standard IAS34 *Interim Financial Reporting*. These interim financial statements do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2008. The Bank also prepares consolidated interim financial statements for the six-month period ended 30 June 2009.

The Executive Board approved the condensed interim financial statements for issue on 24 August 2009.

(b) Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated, and the lat is the Bank's functional currency.

3 Significant accounting policies

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

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2009, and which the Bank has applied:

The Bank applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the statement of changes in equity owner changes in equity, whereas non-owner changes in equity are presented in the statement of comprehensive income.

The Bank has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

The Bank has not applied other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2009, as they are not relevant for the Bank.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

IFRS 3 (revised), ‘Business combinations’ and consequential amendments to IAS 27, ‘Consolidated and separate financial statements’, IAS 28, ‘Investments in associates’ and IAS 31, ‘Interests in joint ventures’, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the group. The group does not have any joint ventures.
The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (revised) to all business combinations from 1 January 2010.

Amendment to IAS 39, Financial Instruments: Recognition and Measurement, effective for annual periods beginning on or after 1 July 2009, clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Bank’s financial statements, as the Bank does not apply hedge accounting.

IFRIC 17, ‘Distributions of non-cash assets to owners’, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the group, as it has not made any non-cash distributions.

IFRIC 18, ‘Transfers of assets from customers’, effective for transfers of assets received on or after 1 July 2009. This is not relevant to the Bank, as it has not received any assets from customers.

4 Risk management

All aspects of the Bank’s risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2008.

5 Capital management

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

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by the Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 30 June 2009, this minimum level is 8%. The Bank was in compliance with the statutory capital ratio during the six-month periods ended 30 June 2008, 31 December 2008 and 30 June 2009.

The Bank’s risk based capital adequacy ratio, as at 30 June 2009, was 15.68% (31 December 2008: 14.72% and 30 June 2008: 13.99%)

6 Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2008.

During the six months ended 30 June 2009 management reassessed its estimates in respect of:

- Impairment allowance for loans and advance due from customers (see note 15);
- Valuation of investment property (see note 20).

7 Net interest income

	Six months ended 30 June	
	2009 '000 LVL	**2008 '000 LVL**
Interest income		
Loans and advances due from financial institutions	1,546	5,327
Loans and advances due from customers	19,599	26,484
Financial instruments at fair value through profit or loss	558	47
Held-to-maturity investments	292	1,023
	21,995	**32,881**
Interest expense		
Deposits and balances due to financial institutions	2,461	4,355
Current accounts and deposits due to customers	4,039	8,620
Other	699	771
	7,199	**13,746**

8 Fee and commission income

	Six months ended 30 June	
	2009 '000 LVL	**2008 '000 LVL**
Money transfers	3,715	3,965
Commission income from payment cards	1,478	1,463
Trust, custodian and other fiduciary services fees	363	805
Guarantee and letter of credit issuance fees	187	307
Commission from loans	646	851
Cash withdrawals fees	117	143
Commission from account servicing	302	117
Other	416	257
	7,224	**7,908**

9 Fee and commission expense

	Six months ended 30 June	
	2009 '000 LVL	2008 '000 LVL
Payment card expenses	461	499
Correspondent accounts	234	495
Brokerage commissions	99	253
Loan's commissions	625	393
Other	164	235
	1,583	**1,875**

10 Impairment losses

	Six months ended 30 June	
	2009 '000 LVL	2008 '000 LVL
Impairment losses		
Loans and advances due from customers	9,510	3,650
Other assets	271	155
	9,781	**3,805**
Reversals of impairment losses		
Loans and advances due from customers	(1,385)	(127)
Held-to-maturity investments	(75)	-
Property and equipment	-	(97)
	(1,460)	**(224)**
Net impairment losses	**8,321**	**3,581**

11 Income tax expense

(a) Income tax expense recognized in income statement

	Six months ended 30 June 2009 '000 LVL
Current tax expense	1,365
Increase in deferred tax liability	201
Total income tax expense in the income statement	**1,566**

The effective tax rate used in these accounts is the effective tax rate expected to be applicable to annual income subject to tax and is 18% (2008: 12%). The difference between the applicable tax rate of 15% (2008:15%) and effective tax rate is caused mainly due by non-deductible expenses, tax exempt income, effect on different tax rates abroad and tax relief on donations.

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

’000 LVL	Six months ended 30 June					
	2009			2008		
	Before tax amount	Tax (expense) / benefit	Net of tax amount	Before tax amount	Tax (expense) / benefit	Net of tax amount
Available-for-sale financial assets	129	(19)	110	-	-	-
Other comprehensive income for the period	**129**	**(19)**	**110**	**-**	**-**	**-**

12 Cash and Due from the Central Bank

Cash and Due from the Central Bank consist of the following

	30 June 2009 ’000 LVL	31 Dec 2008 ’000 LVL
Cash	3,496	2,824
Balances due from the Bank of Latvia	39,724	42,723
Total	**43,220**	**45,547**

13 Financial instruments at fair value through profit or loss

	30 June 2009 ’000 LVL	31 Dec 2008 ’000 LVL
US government bonds	124,914	150,050
Corporate shares	344	2,805
Derivative assets	243	1,459
	125,501	**154,314**
Derivative liabilities	(392)	(511)
	(392)	**(511)**
Pledged under sale and repurchase agreements		
US government bonds	124,914	150,050
Total	**124,914**	**150,050**

14 Loans and advances due from financial institutions

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Nostro accounts		
Latvian commercial banks	33,864	20,553
OECD banks	161,281	161,240
Non-OECD banks	1,207	45,819
Total nostro accounts	**196,352**	**227,612**
Deposits		
Latvian commercial banks	7,173	6,930
OECD banks	34,668	205
Non-OECD banks	7,459	2,566
Total	**49,300**	**9,701**
	245,652	**237,313**

Concentration of placements with banks and other financial institutions

As at 30 June 2009 and 31 December 2008, the Bank had balances with three and four banks and financial institutions, respectively, which exceeded 10% of the total placements with banks and other financial institutions. The gross value of these balances as of 30 June 2009 and 31 December 2008 were LVL 77,158 thousand and LVL 105,132 thousand, respectively.

15 Loans and advances due from customers

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Commercial loans		
Private companies	494,196	518,335
Individuals	60,354	71,039
Impairment allowances	(20,106)	(18,317)
Net loans and advances to customers	**534,444**	**571,057**

(a) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

As at 30 June 2009	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying value of overdue loans
Net carrying amount	**534,444**	448,662	75,472	3,260	3,698	3,352	85,782
Out of which impaired	**50,368**	34,527	6,811	2,296	3,438	3,296	15,841
Assessed fair value of collateral	**709,134**	569,634	122,972	3,849	5,839	6,840	139,500
As at 31 December 2008							
Net carrying amount	**571,057**	503,928	54,561	5,133	4,973	2,462	67,129
Out of which impaired	**59,712**	44,923	3,619	4,367	4,970	1,833	14,789
Assessed fair value of collateral	**793,734**	713,888	60,358	6,961	8,000	4,527	79,846

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

(ii) Analysis of loan by type of collateral

The following table provides the analysis of collateral for the loan portfolio, net of impairment, by types of collateral as at 30 June 2009 and 31 December 2008:

LVL'000	30 June 2009	% of loan portfolio	31 December 2008	% of loan portfolio
Commercial buildings	225,164	42.13	220,456	38.60
Commercial assets pledge	117,123	21.91	126,467	22.15
Land mortgage	72,662	13.60	85,265	14.93
Mortgage on residential properties	35,445	6.63	42,821	7.50
Traded securities	36,626	6.85	35,343	6.19
Trading financial instruments reclassified to loans and receivables from customers	22,670	4.24	23,305	4.08
Guarantee	1,948	0.36	13,447	2.35
Deposit	104	0.02	1,949	0.34
Other	22,702	4.26	22,004	3.86
Total	**534,444**	**100**	**571,057**	**100**

The amounts shown in the table above represent the carrying value of the loans and do not necessarily represent the fair value of the respective collateral.

(iii) Loan categories

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

	30 June 2009		31 December 2008	
	Gross	**Impairment allowance**	**Gross**	**Impairment allowance**
Standard	495,506	(1,298)	512,092	-
Watch	24,490	(2,577)	40,184	(4,698)
Substandard	27,797	(11,744)	33,130	(10,431)
Doubtful	6,490	(4,220)	3,820	(3,040)
Lost	267	(267)	148	(148)
Total	**554,550**	**(20,106)**	**589,374**	**(18,317)**

(iv) Restructured loans

During the six months period ended 30 June 2009, the Bank restructured loans in the total amount of:

LVL'000	**30 June 2009 '000 LVL**	**31 Dec 2008 '000 LVL**
Interest waiver	26,418	-
Interest capitalized	5,697	-
Principal payments waiver	86,637	-
Total	**118,752**	**-**

(v) Collateral assumed

As at 30 June 2009, the Bank is in legal process to sell collateral assumed as security for non-performing loans, as follows:

LVL'000	**30 June 2009 '000 LVL**	**31 Dec 2008 '000 LVL**
Commercial buildings and plant	3,227	9,102
Residential property	5,577	1,535
Land	3,244	539
Total	**12,048**	**11,176**

When loans foreclose and recovery through the sale of collateral commences, the Bank reclassifies the loan to other assets. The respective assets are valued at the lower of cost and net realisable value and are shown in Note 21.

(vi) Movements in the impairment allowances

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Specific allowance for impairment		
Balance at 1 January	18,317	2,913
Charge for the period	9,510	21,700
Reversal of impairment loss	(1,385)	(177)
Effect of currency exchange translation	46	(125)
Write offs	(6,382)	(5,994)
Balance at the end of period	**20,106**	**18,317**

(b) Industry analysis of the loan portfolio

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Real estate management	162,810	171,510
Financial services	158,053	168,165
Individuals	57,162	69,527
Wholesale and retailing	36,752	38,750
Manufacturing	38,762	40,734
Trading financial instruments reclassified to loans and receivables from customers	22,670	23,305
Food industry	20,653	23,108
Transport and communication	8,994	9,776
Tourism	1,456	616
Other	27,132	25,566
	534,444	**571,057**

(c) Geographical analysis of the loan portfolio

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Latvia	262,475	275,425
OECD countries	88,039	165,559
Non-OECD countries	183,930	130,073
	534,444	**571,057**

(d) Significant credit exposures

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity. As at 31 December 2008 and 30 June 2009 the Bank was in compliance with this requirement.

16 Available-for-sale financial assets

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Equity investments		
RB Opportunity Fund I	17,482	10,542
Corporate shares	419	237
	17,901	**10,779**

The Bank holds all units of the RB Opportunity Fund. The units are valued at the issuance cost which approximates the fair value of the underlying assets as at 30 June 2009. The underlying assets comprise mainly real estate and cash in the bank.

Available-for-sale financial assets are measured at fair value, the change in fair value from 1 January to 30 June 2009 being LVL 129 thousand (2008: Nil).

17 Held-to-maturity investments

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Government and municipal bonds		
Latvia	1,498	11,367
Other	1,762	1,739
Total government and municipal bonds	**3,260**	**13,106**
Impairment allowance	(1,537)	(1,593)
Net government and municipal bonds	**1,723**	**11,513**
Corporate bonds		
Russian corporate bonds	796	787
EU corporate bonds	2,510	6,094
Other	-	2,475
Total corporate bonds	**3,306**	**9,356**
Total held-to-maturity investments	**5,029**	**20,869**

Analysis of movements in the impairment allowance

	Six months ended 30 June	
	2009 '000 LVL	2008 '000 LVL
Balance at the beginning of the year	1,593	1,238
Net charge/(recovery) for the year	(75)	327
Currency revaluation	19	28
Balance at the end of the year	**1,537**	**1,593**

18 Property and equipment

’000 LVL	**Land and buildings**	**Equip-ment**	**Leasehold improve-ment.**	**Vehicles**	**Const-ruction in progress**	**Total**
Cost/Revalued amount						
At 1 January 2009	223	9,600	162	1,981	-	**11,966**
Additions	-	221		34	34	**289**
Disposals	-	(496)	(162)	(130)	(200)	**(988)**
Transfers	-	113	-	-	167	**280**
Reclassified to investment property	(223)	-	-	-	-	**(223)**
At 30 June 2009	**-**	**9,438**	**-**	**1,885**	**1**	**11,324**
Depreciation and impairment losses						
At 1 January 2009	59	5,009	162	1,052	-	**6,282**
Depreciation charge	2	510	-	183	-	**695**
Disposals	-	(467)	(162)	(100)	-	**(729)**
Reclassified to investment property	(61)	-	-	-	-	**(61)**
At 30 June 2009	**-**	**5,052**	**-**	**1,135**	**-**	**6,187**
Carrying value						
At 30 June 2009	**-**	**4,386**	**-**	**750**	**1**	**5,137**
At 31 December 2008	164	4,591	-	929	-	**5,684**

19 Intangible assets

’000 LVL	**Goodwill**	**Software**	**Other**	**Total**
Cost				
At 1 January 2009	751	5,725	580	7,056
Additions	-	20	117	137
Disposals	-	(14)	(16)	(30)
Transfers	-	469	(440)	29
At 30 June 2009	**751**	**6,200**	**241**	**7,192**
Amortisation and impairment losses				
At 1 January 2009	-	3,912	9	3,921
Depreciation charge	-	368	2	370
Disposals	-	(2)	-	(2)
At 30 June 2009	**-**	**4,278**	**11**	**4,289**
Carrying value				
At 30 June 2009	**751**	**1,922**	**230**	**2,903**
At 31 December 2008	751	1,813	571	3,135

20 Investment property

	Six months ended 30 June 2009
	’000 LVL
Balance at 1 January 2009	5,100
Transferred from property and equipment	162
Addition	63
Balance at 30 June 2009	**5,325**

21 Other assets and non-current assets held for sale

(a) Other assets

	30 June 2009 ’000 LVL	**31 Dec 2008 ’000 LVL**
Collateral assumed on non performing loans	12,048	11,176
Other	3,849	5,110
	15,897	**16,286**

(b) Non-current assets held for sale

In first half of 2009, the Bank sold the building Vesetas 7, Riga to its subsidiary SIA Vesetas 7 for LVL 29,420 thousand (including VAT), previously recognised as a non-current asset held for sale.

Collateral assumed by the Bank from non-performing loans of LVL 11,176 thousand was classified as non-current assets held for sale as at 31 December 2008. In these condensed interim financial statements the Bank reclassified these assets to other assets.

22 Deposits and balances due to financial institutions

	30 June 2009 ’000 LVL	31 Dec 2008 ’000 LVL
Vostro accounts	3,258	2,350
Term deposits	146,084	151,358
	149,342	**153,708**

Concentration of deposits and balances from banks and other financial institutions

As at 30 June 2009 and 31 December 2008 the Bank had balances with three banks and two banks, respectively, which exceeded 10% of the total deposits and balances from banks. The gross value of these balances as of 30 June 2009 and 31 December 2008 were LVL 53,647 thousand and LVL 35,609 thousand, respectively.

23 Current accounts and deposits due to customers

	30 June 2009 ’000 LVL	31 Dec 2008 ’000 LVL
Current accounts and demand deposits		
- State enterprises	101	44
- Private companies	18,796	44,564
- Individuals	24,937	29,622
- Private companies non-residents	365,634	409,742
- Individuals non-residents	42,926	42,744
Total current account and demand deposits	**452,394**	**526,716**
Term deposits		
- State enterprises		
- Private companies	8,295	5,409
- Individuals	30,101	30,600
- Private companies non-residents	72,052	69,694
- Individuals non-residents	40,049	38,192
Total term deposits	**150,497**	**143,895**
Total current accounts and deposits due to customers	**602,891**	**670,611**

As of 30 June 2009 and 31 December 2008, the Bank maintained customer deposit balances of LVL 7,892 thousand and LVL 12,340 thousand which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

As of 30 June 2009 and 31 December 2008, the Bank had no customers whose balances exceeded 10% of total customer accounts.

24 Other borrowed funds

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
USD Bull Note	-	778
US Long Bond Bear Note	-	521
Natgas Bull Note	452	-
USD Bear Note	453	-
	905	**1,299**

One-year notes, which were issued by the Bank in January 2008, were repaid in January 2009. The average effective interest rate of the repaid notes was 5.22%.

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

25 Commitments and contingencies

	30 June 2009 '000 LVL	31 Dec 2008 '000 LVL
Loan and credit line commitments	37,140	54,335
Credit card commitments	2,534	2,880
Undrawn overdraft facilities	3,837	5,975
Guarantees and letters of credit	5,940	8,112
	49,451	**71,302**

26 Litigation

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

A provision of LVL 391 thousand (2008: LVL 387 thousand) or 50% of an amount disputed, denominated in USD, was made in 2007 for claims where management, based on professional advice received by the Bank, considered it likely that a loss could eventuate. The increase in provision in the year 2009 is due to foreign exchange rate movements. No other amounts have been provided for.

27 Related party transactions

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

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

	Six months ended 30 June	
	2009 **'000 LVL**	**2008** **'000 LVL**
Loans		
Loans at the beginning of period	38,812	5,683
Loans isuued during period	50,008	66,812
Transfers	1,905	10,519
Loans repaid during the period	(29,670)	(61,572)
Loans at the end of period	**61,055**	**21,442**
Interest income earned	**2,532**	**686**
Deposits		
Deposits at the beginning of period	11,649	12,871
Deposits received during period	13,560	14,120
Transfers	(189)	(456)
Deposits repaid during the period	(11,877)	(15,838)
Deposits at the end of period	**13,143**	**10,697**
Interest expense on deposits	**438**	**473**

The Bank sold the office building at Vesetas street 7, Riga, to the related company in March 2009 for LVL 29,420 thousand.

In June 2009 the Bank ceded to the shareholders the loan issued to the third party for the loan net value of LVL 8,585 thousand.

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

Total remuneration included in employee compensation:

	Six months ended 30 June	
	2009 '000 LVL	**2008 '000 LVL**
Members of the Council	68	274
Members of the Executive Board	98	563
	166	**837**

The outstanding balances and average interest rates as of 30 June 2009 with members of the Council and the Executive Board are as follows:

	30 June 2009 '000 LVL	**Average Interest Rate**	**31 Dec 2008 '000 LVL**	**Average Interest Rate**
Balance Sheet				
Assets				
Loans to customers	938	4.02%	397	5.09%
Off balance sheet guarantees	773	-	319	-

The amounts included in the income statement in relation to transactions with members of the Council and the Executive Board are as follows:

	Six months ended 30 June	
	2009 '000 LVL	**2008 '000 LVL**
Income statement		
Interest income	17	14
Interest expense	(92)	(53)