GE Money Bank

*Bank's and Group's consolidated condensed Interim Financial Statements for the six month period ended 30 June 2010*

## CONTENTS

**MANAGEMENT REPORT ON THE BANK'S AND THE GROUP'S OPERATIONS DURING HALF A YEAR 2010**

Dear customers, partners, shareholders and colleagues,

During the first half of 2010 Latvian economy have continued downturn, however early signs of stabilization have been observed. Still, continued downturn impacted negatively profitability and growth of Latvian banking sector.

GE Money Bank continued strategy with main objective to ensure safe and stable position. In the first six months of the year, the main focus of the Bank was to ensure high capital adequacy and liquidity, efficient risk management and debt collection systems and improved effectiveness of compliance and controllership.

The Bank continued rigorous approach to risk assessment. The total amount of reserves on June 30th, 2010 comprised EUR 56,189thousands. In total, reserves comprised 24% of the credit portfolio. As a result the Bank concluded first half of the 2010 with audited losses of EUR 16,213 thousands. The Bank's total assets in the first half of the year comprised EUR 312,564 thousands, including loan portfolio of EUR 175,516 thousands and deposit portfolio of EUR 276,771 thousands.

On June 30th, 2010 the Bank's capital adequacy ratio was 11.28% that exceeded the requirement established by the Capital and Financial Market Commission (FCMC) of 8%, while the liquidity ratio was 93.84%, which was significantly higher than FCMC requirement of 30%. In June, 2010 shareholder extraordinary meeting resolved to increase Bank's share capital.

The Bank continued to support independent, non-governmental organization "Money Planning Centre" (MPC). MPC's mission is educated Latvian society in financial matters. In April, 2010, MPC presented first electronic teaching aid in Latvia regarding money for various age groups – "Study of Money". This teaching aid is available to all schools in Latvia free of charge.

During the next six months of 2010, the Bank will continue to manage company through current economic cycle focusing on this year's strategy, applying conservative risk management approach and continuing to ensure safe and stable position. The Bank will continue to leverage on experience of its owner, General Electric Company, one of the largest corporations in the world.

Between the reporting date and the date of signing this financial report there have been no events that could significantly influence the results of the reporting period.

On behalf of the Bank's management:

Chairman of the Board
Arkadiusz Wiktor Przybyl

Member of the Board
Windy Oliver

Member of the Board
Francisco Javier Lopez Segura

Member of the Board
Aleksandra Baranova

Member of the Board
Franck Antoine Raymond Marzilli

Riga, 19 August 2010

## INFORMATION ON THE BANK'S MANAGEMENT

### Council members as of the date of signing these financial statements

| Name | Position | Initial election date | Resignation date |
|---|---|---|---|
| Xavier Pascal Durand | Chairman of the Council | 01.06.2010. | |
| Aleš Blažek | Deputy Chairman of the Council | 28.03.2008. | |
| Helen Louise Heslop | Member of the Council | 01.06.2010. | |
| Kelvin Jones | Member of the Council | 02.07.2010. | |
| Richard L Neff | Member of the Council | 03.12.2009. | |
| Alla Konnova Woodson | Member of the Council | 17.06.2009. | |
| Richard Colin Gaskin | Member of the Council | 25.08.2008. | 09.04.2009. |
| | Chairman of the Council | 09.04.2009. | 01.06.2010. |
| Seidel Wilfried Mathias | Member of the Council | 28.03.2008. | 01.06.2010. |

### Board members as of the date of signing these financial statements

| Name | Position | Initial election date | Resignation date |
|---|---|---|---|
| Arkadiusz Wiktor Przybyl | Member of the Board | 03.03.2009. | 05.02.2010. |
| | Chairman of the Board | 05.02.2010. | |
| Francisco Javier Lopez Segura | Member of the Board | 05.02.2010. | |
| Windy Oliver | Member of the Board | 01.09.2008. | |
| Aleksandra Baranova | Member of the Board | 02.07.2010. | |
| Franck Antoine Raymond Marzilli | Member of the Board | 02.07.2010. | |
| Renārs Bulgakovs | Member of the Board | 20.03.2009. | 05.02.2010. |
| Inga Vagele | Member of the Board | 13.03.2007. | 05.02.2010. |

## STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of JSC "GE Money Bank" ("the Bank") is responsible for the Bank's and the Bank's subsidiaries' ("the Group") preparation of the condensed interim financial statements and ensuring the fair presentation of the financial position as at the period end, and the profit and loss and cash flows for the period then ended.

While preparing the condensed interim financial statements for the periods ended 30 June 2010 and 30 June 2009 and the condensed balance sheets as of 30 June 2010 and 31 December 2009, the management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. Appropriate accounting principles have been consistently applied.

The Bank's management is responsible for maintaining proper accounting records and ensuring the compliance of these condensed interim financial statements with the regulations of the Financial and Capital Market Commission and International Accounting Standard 34. The management is responsible for maintaining the measures necessary for safeguarding the Bank's assets and for the prevention and detention of fraud and other irregularities.

On behalf of the Bank's management:

| | | |
|---|---|---|
| Chairman of the Board<br>Arkadiusz Wiktor Przybyl | Member of the Board<br>Windy Oliver | Member of the Board<br>Francisco Javier Lopez Segura |
| Member of the Board<br>Aleksandra Baranova | Member of the Board<br>Franck Antoine Raymond Marzilli | |

Riga, 19 August 2010

**KPMG Baltics SIA**
Vesetas iela 7
Riga LV 1013
Latvia

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Fax +371 670 380 02
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## Independent Auditors' Report

## To the shareholders of AS GE Money Bank

We have audited the accompanying Bank's condensed interim financial information of AS GE Money Bank ("the Bank"), which comprises the Bank's condensed interim statement of financial position as at 30 June 2010, the Bank's condensed interim income statement, the Bank's condensed interim statement of comprehensive income, Bank's condensed interim statement of changes in equity and Bank's condensed interim statement of cash flows for the six month period then ended, and condensed notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 30. We have also audited the accompanying consolidated condensed interim financial information of AS GE Money Bank and its subsidiaries ("the Group"), which comprises the consolidated condensed interim statement of financial position as at 30 June 2010, the consolidated condensed interim income statement, the consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows for the six month period then ended, and condensed notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 30.

*Management's Responsibility for the Financial Information*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on this consolidated and Bank's condensed interim financial information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the condensed interim financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated and Bank's condensed interim financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control system. 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 condensed interim financial information.

KPMG

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

*Opinion*

In our opinion, the condensed interim financial information of AS GE Money Bank as at and for the six month period ended 30 June 2010 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

In our opinion, the consolidated condensed interim financial information of AS GE Money Bank Group as at and for the six month period ended 30 June 2010 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

The accompanying consolidated and Bank's financial information as at and for the six month period ended 30 June 2009 were reviewed by us and our report thereon, dated 27 August 2009, stated that nothing came to our attention that caused us to believe the consolidated and Bank's financial statements were not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the consolidated and Bank's financial statements taken as a whole.

KPMG Baltics SIA
Licence Nr. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
19 August 2010

Inga Lipsane
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 CONSOLIDATED AND BANK INTERIM INCOME STATEMENT

| | Notes | 30.06.2010 Group | 30.06.2010 Bank | 30.06.2009 Group | 30.06.2009 Bank |
|---|---|---|---|---|---|
| Interest income | 2 | 7,863 | 7,863 | 10,145 | 10,145 |
| Interest expense | 2 | (8,025) | (8,051) | (7,745) | (7,762) |
| **Net interest income** | | **(162)** | **(188)** | **2,400** | **2,383** |
| Commissions and fee income | 3 | 1,713 | 1,560 | 2,267 | 2,154 |
| Commissions and fee expense | 3 | (569) | (568) | (706) | (704) |
| **Net commission income** | | **1,144** | **992** | **1,561** | **1,450** |
| Net profit from held for trading financial assets | | 32 | 32 | 171 | 171 |
| Gain from foreign exchange | 4 | 1,576 | 1,576 | 11,590 | 11,590 |
| Other operating income | | 1,625 | 1,625 | 1,156 | 1,156 |
| **Net operating income** | | **4,215** | **4,037** | **16,878** | **16,750** |
| Administrative expenses | | (9,969) | (9,906) | (11,097) | (11,040) |
| Other operating expenses | | (3) | (3) | (94) | (94) |
| Net impairment allowance expense | 9 | (10,341) | (10,341) | (17,387) | (17,387) |
| **Loss before corporate income tax** | | **(16,098)** | **(16,213)** | **(11,700)** | **(11,771)** |
| Corporate income tax | 17 | - | - | - | - |
| **Loss for the period** | | **(16,098)** | **(16,213)** | **(11,700)** | **(11,771)** |

*The accompanying notes on pages 16 to 30 form an integral part of these Bank and Group interim financial statements.*

Chairman of the Board
Arkadiusz Wiktor Przybyl

Member of the Board
Windy Oliver

Member of the Board
Francisco Javier Lopez Segura

Member of the Board
Aleksandra Baranova

Member of the Board
Franck Antoine Raymond Marzilli

Riga, 19 August 2010

## CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 30.06.2010 Group | 30.06.2010 Bank | 30.06.2009 Group | 30.06.2009 Bank |
|---|---|---|---|---|---|
| **Loss for the period** | | **(16,098)** | **(16,213)** | **(11,700)** | **(11,771)** |
| **Other comprehensive income** | | | | | |
| Gain/(loss) from available-for-sale financial assets | | 1,329 | 1,329 | (414) | (414) |
| **Other comprehensive income for the period** | | 1,329 | 1,329 | (414) | (414) |
| **Total comprehensive income for the period** | | **(14,769)** | **(14,884)** | **(12,114)** | **(12,185)** |

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Riga, 19 August 2010

## CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF FINANCIAL POSITION

| | Notes | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|---|
| **ASSETS** | | **Group** | **Bank** | **Group** | **Bank** |
| Cash and due from Bank of Latvia | 5 | 26,195 | 26,195 | 27,789 | 27,789 |
| Due from credit institutions | 6 | 88,760 | 88,760 | 110,649 | 110,649 |
| Held for trading financial assets | 7 | 2,810 | 2,810 | 4,643 | 4,643 |
| *Shares and other non-fixed income securities* | | *2,417* | *2,417* | *2,214* | *2,214* |
| *Derivatives* | | *393* | *393* | *2,429* | *2,429* |
| Loans | 8-9 | 175,516 | 175,516 | 203,694 | 203,694 |
| Available-for-sale financial assets | 7 | 5,195 | 5,195 | 3,755 | 3,755 |
| Held-to-maturity investments | 7 | 2,722 | 2,722 | 2,786 | 2,786 |
| Investments in subsidiaries | | - | 354 | - | 354 |
| Intangible assets | | 398 | 398 | 491 | 491 |
| Property and equipment | | 6,655 | 6,655 | 7,215 | 7,215 |
| Deferred expense and accrued income | | 932 | 866 | 1,244 | 1,213 |
| Current tax assets | | 454 | 454 | 1,956 | 1,956 |
| Investment property | 10 | 1,897 | 1,897 | 1,558 | 1,558 |
| Other assets | | 742 | 742 | 964 | 959 |
| **Total assets** | | **312,276** | **312,564** | **366,744** | **367,062** |

*The accompanying notes on pages 16 to 30 form an integral part of these condensed Bank and Group interim financial statements.*

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Riga, 19 August 2010

## CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF FINANCIAL POSITION

| | Notes | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|---|
| **LIABILITIES** | | **Group** | **Bank** | **Group** | **Bank** |
| Due to credit institutions | 11 | 131 | 131 | 15,127 | 15,127 |
| Financial liabilities held for trading | | 2,012 | 2,012 | 583 | 583 |
| *Derivatives* | | *2,012* | *2,012* | *583* | *583* |
| Financial liabilities at amortized cost | | 284,523 | 285,096 | 310,986 | 311,479 |
| *Deposits* | 12 | *276,198* | *276,771* | *302,441* | *302,934* |
| *Debt securities* | 13 | *5,023* | *5,023* | *5,026* | *5,026* |
| *Subordinated debt* | 14 | *3,302* | *3,302* | *3,519* | *3,519* |
| Deferred income and accrued expense | | 1,611 | 1,605 | 1,393 | 1,383 |
| Other liabilities | | 1,242 | 1,238 | 1,129 | 1,124 |
| **Total liabilities** | | **289,519** | **290,082** | **329,218** | **329,696** |
| Capital and reserves | | | | | |
| *Share capital* | | 32,870 | 32,870 | 32,870 | 32,870 |
| *Share premium* | | 42,362 | 42,362 | 42,362 | 42,362 |
| *Reserve capital* | | 4,005 | 4,005 | 4,005 | 4,005 |
| *Property, and equipment revaluation reserve* | | 334 | 334 | 334 | 334 |
| *Available for sale financial asset revaluation reserve* | | (1,208) | (1,208) | (2,537) | (2,537) |
| *Accumulated losses* | | (39,508) | (39,668) | (9,419) | (9,391) |
| *Loss for the period* | | (16,098) | (16,213) | (30,089) | (30,277) |
| **Total equity** | | **22,757** | **22,482** | **37,526** | **37,366** |
| **Total liabilities and equity** | | **312,276** | **312,564** | **366,744** | **367,062** |
| **OFF-BALANCE SHEET ITEMS** | | | | | |
| Guarantees | 15 | 1,212 | 1,212 | 1,618 | 1,618 |
| Other commitments | 15 | 2,742 | 2,742 | 5,476 | 5,476 |

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Riga, 19 August 2010

**CONDENSED BANK INTERIM STATEMENT OF CHANGES IN EQUITY**

| | Share capital | Share premium | Revaluation reserve | Reserve capital and other reserves | Retained earnings / accumulated loss | Total |
|---|---|---|---|---|---|---|
| **31.12.2008** | **22,198** | **10,347** | **908** | **4,005** | **(9,391)** | **28,067** |
| Increase of share capital | 10,672 | 32,015 | - | - | - | 42,687 |
| Total comprehensive income | - | - | (414) | - | (11,771) | (12,185) |
| **30.06.2009** | **32,870** | **42,362** | **494** | **4,005** | **(21,162)** | **58,569** |
| Total comprehensive income | - | - | (2,696) | - | (18,506) | (21,202) |
| **31.12.2009** | **32,870** | **42,362** | **(2,202)** | **4,005** | **(39,668)** | **37,367** |
| Total comprehensive income | - | - | 1328 | - | (16,213) | (14,885) |
| **30.06.2010** | **32,870** | **42,362** | **(874)** | **4,005** | **(55,881)** | **22,482** |

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Riga, 19 August 2010

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Revaluation reserve | Reserve capital and other reserves | Retained earnings / (accumulated loss) | Total |
|---|---|---|---|---|---|---|
| **31.12.2008** | **22,198** | **10,347** | **908** | **4,005** | **(9,419)** | **28,039** |
| Increase of share capital | 10,672 | 32,015 | - | - | - | 42,687 |
| Total comprehensive income | - | - | (414) | - | (11,700) | (12,114) |
| **30.06.2009** | **32,870** | **42,362** | **494** | **4,005** | **(21,119)** | **58,612** |
| Total comprehensive income | - | - | (2,697) | - | (18,389) | (21,086) |
| **31.12.2009** | **32,870** | **42,362** | **(2,203)** | **4,005** | **(39,508)** | **37,526** |
| Total comprehensive income | - | - | 1,329 | | (16,098) | (14,769) |
| **30.06.2010** | **32,870** | **42,362** | **(874)** | **4,005** | **(55,606)** | **22,757** |

*The accompanying notes on pages 16 to 30 form an integral part of these Bank and Group interim financial statements.*

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Riga, 19 August 2010

## CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF CASH FLOWS

| | 6 months ended 30.06.2010 | 6 months ended 30.06.2010 | 6 months ended 30.06.2009 | 6 months ended 30.06.2009 |
|---|---|---|---|---|
| **Cash flows from operations** | **Group** | **Bank** | **Group** | **Bank** |
| Loss before corporate income tax | (16,098) | (16,213) | (11,700) | (11,771) |
| Depreciation, amortization and write-off of intangible assets and property and equipment | 1,208 | 1,208 | 1,033 | 1,025 |
| Increase of impairment allowance | 10,341 | 10,341 | 17,387 | 17,387 |
| Result from revaluation of foreign currencies | (26) | (26) | (15) | (15) |
| **Increase/ (decrease) in cash and cash equivalents before changes in assets and liabilities** | **(4,575)** | **(4,690)** | **6,705** | **6,626** |
| Change in due from credit institutions | (131) | (131) | 17 | 17 |
| Change in loans | 17,837 | 17,837 | 22,446 | 22,446 |
| Change in available-for-sale financial assets | (111) | (111) | (108) | (108) |
| Change in held for trading financial assets | 1,833 | 1,833 | (6,560) | (6,560) |
| Change in deferred expense and accrued income | 312 | 314 | (76) | (68) |
| Change in other assets | 1,448 | 1,477 | 397 | 397 |
| Change in due to credit institutions | (538) | (538) | (1,328) | (1,328) |
| Change in deposits | (26,243) | (26,162) | (13,154) | (13,093) |
| Change in held for trading financial liabilities | 1,429 | 1,429 | - | - |
| Change in deferred income and accrued expenses | 219 | 220 | (787) | (780) |
| Change in other liabilities | (107) | (105) | (97) | (101) |
| Income tax paid | - | - | 376 | 376 |
| **Net cash from/ (used in) operating activities** | **(8,627)** | **(8,627)** | **7,831** | **7,824** |

| **Cash flows from investing activities** | **6 months ended 30.06.2010** | **6 months ended 30.06.2010** | **6 months ended 30.06.2009** | **6 months ended 30.06.2009** |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| Purchases of property and equipment, and intangibles | (555) | (555) | (233) | (226) |
| **Net cash from investing activities** | **(555)** | **(555)** | **(233)** | **(226)** |
| **Cash flows from financing activities** | | | | |
| Subordinated liabilities repaid | - | - | (10,956) | (10,956) |
| Increase of share capital | - | - | 42,686 | 42,686 |
| **Net cash flows from financing activities** | **-** | **-** | **31,730** | **31,730** |
| **Net (decrease) / increase in cash and cash equivalents** | **(9,182)** | **(9,182)** | **39,328** | **39,328** |
| Opening balance of cash and cash equivalents | 120,948 | 120,948 | 37,984 | 37,984 |
| Results from exchange rate differences | 26 | 26 | 16 | 16 |
| **Closing balance of cash and its equivalents** | **111,792** | **111,792** | **77,327** | **77,327** |

**Cash and cash equivalents include the following:**

| | **30.06.2010** | **30.06.2010** | **30.06.2009** | **30.06.2009** |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| Cash and due from the Bank of Latvia | 26,195 | 26,195 | 33,063 | 33,063 |
| Due from credit institutions including term deposits due in less than three months | 85,728 | 85,728 | 56,622 | 56,622 |
| Due to credit institutions including term deposits due in less than three months | (131) | (131) | (12,358) | (12,358) |
| **Total** | **111,792** | **111,792** | **77,327** | **77,327** |

*The accompanying notes on pages 16 to 30 form an integral part of these Bank and Group interim financial statements.*

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Arkadiusz Wiktor Przybyl

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Riga, 19 August 2010

## NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS

### 1. Background

JSC "GE Money Bank" (until 23 April 2008 JSC "Baltic Trust Bank") (the "Bank") was founded on 10 September 1992. It was registered in the Republic of Latvia as a joint stock company with limited liability. The Bank's license allows the Bank to maintain accounts and receive term deposits from individuals and legal entities. The Group's and Bank's legal address is 3, 13. Janvara Street, Riga, Latvia, LV - 1050.

The Bank's ultimate controlling party is General Electric Company which is listed on the New York Stock Exchange. The Bank's immediate controlling party is SIA "Finstar Baltic Investments" owning more than 99% of shares.

The Bank and its subsidiaries (together "the Group") are presented together in these interim condensed consolidated and Bank financial statements.

The interim condensed consolidated financial statements for the six month period ended 30 June 2010 incorporate the financial statements of companies mentioned below:

| Name of company | Country of registration | Type of activity | Participation, % | Date of overtaking control |
|---|---|---|---|---|
| IPS "GE Money Asset management" (until 23.04.08. IS "BTB Asset management") | Latvia | Financial services | 100 | 06.11.2003 |
| AS "GE Money atklātais pensiju fonds" (until 23.04.08. "Baltic Trust Bank Atklātais pensiju fonds") | Latvia | Financial services | 100 | 13.05.2005 |

**Basis of preparation**

*Statement of compliance*

These condensed interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. These condensed interim financial statements do not include all of the information required for a complete set of annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

The interim condensed consolidated and Bank interim financial statements were approved for issue by the Board of Directors on 19 August 2010. The financial statements may be amended by the shareholders.

*Functional and Presentation Currency*

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

**Significant accounting policies**

Except as described below, the accounting policies applied by the Group and Bank in these condensed interim financial statements are the same as those applied by the Group and Bank in their financial statements as at and for the year ended 31 December 2009.

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

**New standards and interpretations**

*The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Bank and the Group:*

- Revised IFRS 3 *Business Combinations*
- Amendments to IFRS 2 *Share-based Payment - Group Cash-settled Share-based Payment Transactions*
- Amended IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- IFRIC 12 *Service Concession Agreements*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*

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

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. Provides relief to a first-time adopter from providing comparative information for the disclosures required by the amendments to IFRS 7 issued in March 2009 entitled Improving Disclosures about Financial Instruments - Amendments to IFRS 7 and clarifies the relief provided in the transitional requirements of IFRS 7. The Amendment to IFRS 1 is not relevant to the Group's and the Bank's financial statements as the Group and the Bank are not first time adopters.

- Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011). The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not relevant to the Group's and the Bank's financial statements as the Group and the Bank are not a government-related entities and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's and the Bank's financial statements as the Group and the Bank have not issued such instruments at any time in the past.

- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Group's and the Bank's financial statements as the Group and the Bank do not have any defined benefit plans with minimum funding requirements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Group and the Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's and the Bank's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

**Risk management**

All aspects of the Bank and Group's risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2009.

**Capital management**

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank, the lead operating entity of the Group, and for the Group as a whole.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by the Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 30 June 2010, this minimum level is 8%.

The Bank's risk based capital adequacy ratio, as at 30 June 2010, was 11.28% (31 December 2009: 15.92%; 30 June 2009: 20.32%).

**Sensitivity analysis**

***Foreign currency sensitivity analysis***

A 10 percent weakening of the Lat against the following currencies would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. There is no additional effect on the equity other than through the profit or loss.

Effect in thousands of LVL

| | Group | Bank |
|---|---|---|
| **30.06.2010** | | |
| EUR | (19) | (19) |
| RUR | 6 | 6 |
| CHF | 3 | 4 |
| NOK | 3 | 3 |
| **31.12.2009** | | |
| USD | (4) | (4) |
| EUR | (23) | (23) |
| NOK | 6 | 4 |
| GBP | 6 | 4 |

***Interest rate sensitivity analysis***

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss during the next one year period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

| | 100 bps increase | | 100 bps decrease | |
|---|---|---|---|---|
| | **Net income** | **Equity** | **Net income** | **Equity** |
| **30.06.2010** | | | | |
| Bank | (203) | (431) | 203 | 431 |
| Group | (201) | (428) | 201 | 428 |
| **31.12.2009** | | | | |
| Bank | 179 | 6 | (179) | (6) |
| Group | 181 | 7 | (181) | (7) |

**USE OF ESTIMATES AND JUDGMENTS**

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 condensed consolidated and Bank interim financial statements, the significant judgments made by management in applying the Bank and Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2009. These were allowances for credit losses, valuation of financial instruments, impairment of financial instruments, valuation of investment property, valuation of assets shown under other assets, recognition/ non-recognition of deferred tax asset.

**2. INTEREST INCOME AND EXPENSE**

Interest income is comprised as follows:

| | 30.06.2010 | 30.06.2010 | 30.06.2009 | 30.06.2009 |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| Interest income from loans | 7,543 | 7,543 | 9,758 | 9,758 |
| Interest income from loans and receivables due from credit institutions | 144 | 144 | 212 | 212 |
| Interest income from fixed income securities | 176 | 176 | 175 | 175 |
| **Total** | **7,863** | **7,863** | **10,145** | **10,145** |

Interest expense is comprised as follows:

| | 30.06.2010 Group | 30.06.2010 Bank | 30.06.2009 Group | 30.06.2009 Bank |
|---|---|---|---|---|
| Interest expenses on amortized cost instruments | 7,874 | 7,900 | 7,610 | 7,627 |
| *Interest expenses on deposits* | *7,319* | *7,345* | *6,742* | *6,759* |
| *Interest expenses on deposits of credit institutions* | *326* | *326* | *247* | *247* |
| *Interest expenses on debt securities* | *48* | *48* | *151* | *151* |
| *Interest expenses on subordinated debt* | *181* | *181* | *470* | *470* |
| Deposit guarantee fund | 151 | 151 | 135 | 135 |
| **Total** | **8,025** | **8,051** | **7,745** | **7,762** |

In accordance with the regulations of the Financial and Capital Market Commission payments into the deposit guarantee fund are considered as interest .

**3. COMMISSIONS AND FEE INCOME AND EXPENSE**

Commissions and fee income are comprised as follows:

| | 30.06.2010 Group | 30.06.2010 Bank | 30.06.2009 Group | 30.06.2009 Bank |
|---|---|---|---|---|
| Commissions from opening and servicing customers' accounts | 753 | 600 | 918 | 805 |
| Commissions from payment cards | 603 | 603 | 748 | 748 |
| Commissions for settlement of utilities payments | 161 | 161 | 279 | 279 |
| Commissions from cash withdrawal | 155 | 155 | 241 | 241 |
| Commissions from guarantees | 11 | 11 | 21 | 21 |
| Other | 30 | 30 | 60 | 60 |
| **Total** | **1,713** | **1,560** | **2,267** | **2,154** |

Expenses are as follows:

| | 30.06.2010 Group | 30.06.2010 Bank | 30.06.2009 Group | 30.06.2009 Bank |
|---|---|---|---|---|
| Operations with payment cards | 463 | 463 | 575 | 575 |
| Services of correspondent banks | 78 | 78 | 100 | 100 |
| Other | 28 | 27 | 31 | 29 |
| **Total** | **569** | **568** | **706** | **704** |

## 4. GAIN FROM FOREIGN EXCHANGE

| | 30.06.2010 | 30.06.2010 | 30.06.2009 | 30.06.2009 |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| Foreign exchange trading income | 1,602 | 1,602 | 11,606 | 11,606 |
| Foreign currency revaluation result | (26) | (26) | (16) | (16) |
| **Total** | **1,576** | **1,576** | **11,590** | **11,590** |

## 5. CASH AND DUE FROM BANK OF LATVIA

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| Cash | 11,067 | 11,067 | 9,408 | 9,408 |
| Correspondent account in the Bank of Latvia | 15,128 | 15,128 | 18,381 | 18,381 |
| **Total** | **26,195** | **26,195** | **27,789** | **27,789** |

## 6. LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| **Demand deposits** | | | | |
| Credit institutions of OECD countries | 54,705 | 54,705 | 79,486 | 79,486 |
| Latvian credit institutions | 31,023 | 31,023 | 27,663 | 27,663 |
| Credit institutions non-OECD countries | - | - | 599 | 599 |
| **Total** | **85,728** | **85,728** | **107,748** | **107,748** |
| **Term deposits** | | | | |
| Credit institutions of OECD countries | 3,032 | 3,032 | 2,901 | 2,901 |
| **Total term deposits** | **3,032** | **3,032** | **2,901** | **2,901** |
| **Total deposits** | **88,760** | **88,760** | **110,649** | **110,649** |

As at 30 June 2010 and 31 December 2009 the Bank had four and six banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 30 June 2010 was EUR 66,874 thousand (as at 31 December 2009: EUR 88,833 thousand).

**7. INVESTMENTS IN FINANCIAL ASSETS**

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| Held for trading financial assets | 2,810 | 2,810 | 4,643 | 4,643 |
| *Shares and other non-fixed income securities* | *2,417* | *2,417* | *2,214* | *2,214* |
| *Derivatives* | *393* | *393* | *2,429* | *2,429* |
| Available-for-sale financial assets | 5,195 | 5,195 | 3,755 | 3,755 |
| Held-to-maturity financial assets | 2,722 | 2,722 | 2,786 | 2,786 |
| | **10,727** | **10,727** | **11,184** | **11,184** |

Derivative instruments are foreign currency swaps. Available –for-sale financial assets and held-to-maturity financial assets are Latvian Government Bonds.

**8. LOANS**

Loans by groups are comprised as follows:

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| Government | 489 | 489 | 514 | 514 |
| Corporate | 168,495 | 168,495 | 182,719 | 182,719 |
| Individuals | 56,312 | 56,312 | 60,401 | 60,401 |
| State controlled companies and municipalities | 6,409 | 6,409 | 7,793 | 7,793 |
| **Gross loans** | **231,705** | **231,705** | **251,427** | **251,427** |
| *Allowances for loan losses* | *(56,189)* | *(56,189)* | *(47,733)* | *(47,733)* |
| **Total** | **175,516** | **175,516** | **203,694** | **203,694** |

Loans issued by type:

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| Mortgage loans | 51,777 | 51,777 | 55,159 | 55,159 |
| Commercial loans | 19,495 | 19,495 | 26,633 | 26,633 |
| Industrial loans | 148,785 | 148,785 | 155,609 | 155,609 |
| Finance lease | 7,499 | 7,499 | 9,337 | 9,337 |
| Consumer loans | 1,091 | 1,091 | 1,604 | 1,604 |
| Credit cards | 1,766 | 1,766 | 1,763 | 1,763 |
| Other | 1,292 | 1,292 | 1,322 | 1,322 |
| **Gross loans** | **231,705** | **231,705** | **251,427** | **251,427** |
| *Allowances for loan losses* | *(56,189)* | *(56,189)* | *(47,733)* | *(47,733)* |
| **Total** | **175,516** | **175,516** | **203,694** | **203,694** |

Group's and Bank's loans issued by country of customers:

| Country | Gross loans | | Allowance | | Net loans | |
|---|---|---|---|---|---|---|
| | 30.06.2010 | 31.12.2009 | 30.06.2010 | 31.12.2009 | 30.06.2010 | 31.12.2009 |
| Latvia | 231,080 | 250,812 | (56,139) | (47,717) | 174,941 | 203,095 |
| OECD countries | 463 | 475 | (36) | (3) | 427 | 471 |
| Other countries | 162 | 140 | (14) | (13) | 148 | 128 |
| **Total** | **231,705** | **251,427** | **(56,189)** | **(47,733)** | **175,516** | **203,694** |

Loans by industry are comprised as follows:

| Industry | 30.06.2010 Group | 30.06.2010 Bank | 31.12.2009 Group | 31.12.2009 Bank |
|---|---|---|---|---|
| Manufacturing industry | 26,360 | 26,360 | 27,819 | 27,819 |
| Trade | 12,755 | 12,755 | 13,403 | 13,403 |
| Real estate, renting and other business activities | 14,998 | 14,998 | 18,782 | 18,782 |
| Agriculture, forestry and fishing | 14,109 | 14,109 | 16,551 | 16,551 |
| Transport, storage and communications | 9,510 | 9,510 | 11,639 | 11,639 |
| Other community, social and personal service activities | 7,145 | 7,145 | 7,211 | 7,211 |
| Construction | 3,459 | 3,459 | 5,526 | 5,526 |
| Electricity, gas and water supply | 5,535 | 5,535 | 8,559 | 8,559 |
| Hotels and restaurants | 7,089 | 7,089 | 7,113 | 7,113 |
| Financial services | 68,402 | 68,402 | 72,252 | 72,252 |
| Mining and quarrying | 1,514 | 1,514 | 1,616 | 1,616 |
| Other | 4,517 | 4,517 | 555 | 555 |
| **Total** | **175,393** | **175,393** | **191,026** | **191,026** |
| Loans to individuals | 56,312 | 56,312 | 60,401 | 60,401 |
| **Gross loans** | **231,705** | **231,705** | **251,427** | **251,427** |
| *Allowances for loan losses* | *(56,189)* | *(56,189)* | *(47,733)* | *(47,733)* |
| **Total** | **175,516** | **175,516** | **203,694** | **203,694** |

Loans by classification and groups:

| | 30.06.2010 Group | 30.06.2010 Bank | 31.12.2009 Group | 31.12.2009 Bank |
|---|---|---|---|---|
| **Loans assessed on individual basis** | **186,647** | **186,647** | **203,080** | **203,080** |
| *Standard* | 110,209 | 110,209 | 136,432 | 136,432 |
| *Watch-list* | 10,253 | 10,253 | 9,609 | 9,609 |
| *Substandard* | 28,617 | 28,617 | 35,681 | 35,681 |
| *Doubtful* | 35,307 | 35,307 | 20,095 | 20,095 |
| *Bad* | 2,261 | 2,261 | 1,263 | 1,263 |
| Allowances | (44,643) | (44,643) | *(36,122)* | *(36,122)* |
| **Net loans assessed on individual basis** | **142,004** | **142,004** | **166,958** | **166,958** |
| | | | | |
| **Gross loans assessed collectively** | **45,058** | **45,058** | **48,346** | **48,346** |
| Allowances | *(11,546)* | *(11,546)* | *(11,610)* | *(11,610)* |
| **Net loans assessed collectively** | **33,512** | **33,512** | **36,736** | **36,736** |
| **Net loans, Total** | **175,516** | **175,516** | **203,694** | **203,694** |

Loan quality by delinquency periods:

| **Loans subject to collective impairment** | 30.06.2010 Group | 30.06.2010 Bank | 31.12.2009 Group | 31.12.2009 Bank |
|---|---|---|---|---|
| Loans without delinquency | 25,829 | 25,829 | 26,306 | 26,306 |
| Delinquent loans | 19,229 | 19,229 | 22,040 | 22,040 |
| *Delinquent up to 30 days* | *2,234* | *2,234* | *4,529* | *4,529* |
| *Delinquent 30-60 days* | *494* | *494* | *1,483* | *1,483* |
| *Delinquent 60-90 days* | *575* | *575* | *1,086* | *1,086* |
| *Delinquent over 90 days* | *15,926* | *15,926* | *14,942* | *14,942* |
| **Loans subject to collective impairment** | **45,058** | **45,058** | **48,346** | **48,346** |
| Impairment allowance | (11,547) | (11,547) | (11,610) | (11,610) |
| **Net loans subject to collective impairment** | **33,511** | **33,511** | **36,736** | **36,736** |
| | | | | |
| **Individually assessed loans** | | | | |
| **Loans without specific impairment** | | | | |
| Loans without delinquency | 100,201 | 100,201 | 122,982 | 122,982 |
| Delinquent loans | 5,675 | 5,675 | 8,053 | 8,053 |
| *Delinquent up to 30 days* | *4,286* | *4,286* | *5,520* | *5,520* |
| *Delinquent 30-60 days* | *1,121* | *1,121* | *724* | *724* |
| *Delinquent 60-90 days* | *140* | *140* | *225* | *225* |
| *Delinquent over 90 days* | *128* | *128* | *1,584* | *1,584* |
| **Loans without specific impairment** | **105,876** | **105,876** | **131,035** | **131,035** |
| Collective impairment for individually assessed loans | (189) | (189) | 0 | 0 |
| **Net individually assessed loans without specific impairment** | **105,687** | **105,687** | **131,035** | **131,035** |

| **Loans with specific impairment** | **30.06.2010 Bank** | **30.06.2010 Bank** | **31.12.2009 Group** | **31.12.2009 Bank** |
|---|---|---|---|---|
| Loans without delinquency | 10,390 | 10,390 | 1,828 | 1,828 |
| Delinquent loans | 70,381 | 70,381 | 70,217 | 70,217 |
| Delinquent up to 30 days | *3,500* | *3,500* | 731 | 731 |
| Delinquent 30-60 days | *1,423* | *1,423* | 2,106 | 2,106 |
| Delinquent 60-90 days | *1,991* | *1,991* | 1,405 | 1,405 |
| Delinquent over 90 days | *63,467* | *63,467* | 65,975 | 65,975 |
| **Loans with specific impairment** | **80,771** | **80,771** | **72,045** | **72,045** |
| Specific impairment for individually assessed loans | (44,453) | (44,453) | (36,122) | (36,122) |
| **Net individually assessed loans with specific impairment** | **36,318** | **36,318** | **35,923** | **35,923** |
| **Loans, total** | **231,705** | **231,705** | **251,427** | **251,427** |
| Impairment allowance | (56,189) | (56,189) | (47,733) | (47,733) |
| **Net loans, total** | **175,516** | **175,516** | **203,694** | **203,694** |

The following table provides the analysis of the loan portfolio of the Bank and Group by types of collateral as at 30 June 2010 and 31 December 2009:

| **LVL'000** | **30.06.2010** | **% of loan portfolio** | **31.12.2009** | **% of loan portfolio** |
|---|---|---|---|---|
| Commercial buildings | 56,817 | 24 | 60,831 | 24 |
| Commercial assets pledge | 21,221 | 10 | 25,218 | 10 |
| Land mortgage | 22,881 | 10 | 26,252 | 10 |
| Mortgage on residential properties | 40,871 | 17 | 43,705 | 18 |
| Guarantee | 4,209 | 2 | 4,139 | 2 |
| Deposit | 68,402 | 30 | 68,400 | 27 |
| Other (non-secured) | 17,304 | 7 | 22,882 | 9 |
| **Gross loans** | **231,705** | **100** | **251,427** | **100** |
| *Allowances for loan losses* | *(56,189)* | - | *(47,733)* | - |
| **Total** | **175,516** | **-** | **203,694** | **-** |

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

Other (non-secured) include negative balances of current accounts, overdrafts, credit cards and factoring. All of these balances are non-secured.

As at 30 June 2010 the Group and Bank had one borrower, whose loan balance exceeded 10% of loans to customers (as at 31 December 2009: one). The gross value of this loans as at 30 June 2010 EUR 68,501 thousand (as at 31 December 2009: EUR 72,276 thousand). This loan has been issued to a related party registered in Latvia.

During the six month period ending 30 June 2010 the Group and Bank assumed title of collateral amounting to EUR 339 thousand. This collateral is represented by land and buildings and has been classified under Investment property.

The amount of restructured loans (principals) as of 30 June 2010 for six month period was EUR 12,561 thousand (as at 31 December 2009 for twelve month period: EUR 51,445 thousand). There were no interest amounts or principal payments cancelled for restructured loans in 2010 and 2009.

## 9. ALLOWANCE FOR DOUBTFUL LOANS AND OTHER FINANCIAL ASSETS

The Group's and Bank's impairment allowance movements in 2009 and six months period ended 30.06.2010 are as follows:

Impairment Allowance

| | Group | Bank |
|---|---|---|
| **Balance as at 31 December 2008** | **16,101** | **16,174** |
| Additional allowance | 35,674 | 35,942 |
| Decrease of allowance | (4,042) | (4,310) |
| *write-off* | *(4,042)* | *(4,310)* |
| **Balance as at 31 December 2009** | **47,733** | **47,806** |
| Additional allowance | 10,341 | 10,341 |
| Decrease of allowance | (1,885) | (1,885) |
| *write-off* | *(1,885)* | *(1,885)* |
| **Balance as at 30 June 2010** | **56,189** | **56,262** |

Allowances for impairment losses were made for the following balance sheet assets:

| | 30.06.2010 Group | 30.06.2010 Bank | 31.12.2009 Group | 31.12.2009 Bank |
|---|---|---|---|---|
| Loans and receivables due from customers (Note 7) | 56,189 | 56,189 | 47,733 | 47,733 |
| Investments in subsidiaries | - | 73 | - | 73 |
| **Total** | **56,189** | **56,262** | **47,733** | **47,806** |

For all loans, which were written off in 2009 and six months period ended 30 June 2010, previously a specific allowance was made in the amount of 100%.

## 10. INVESTMENT PROPERTY

Bank's and Group's Investment property

| | Land and buildings |
|---|---|
| **Historical cost** | |
| **As of 31.12.2009** | **1,558** |
| Repossession | 339 |
| **As of 30.06.2010** | **1,897** |

As part of the normal course of business the Bank occasionally takes possession of property that originally was pledged as security for a loan. When the Bank acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Bank.

During 2009 and 2010 the Bank has been developing the strategic plans regarding the property repossessed. As a result the Bank classified the property repossessed as Investment property and applied the cost model to investment property.

By the date of signing the report the Bank has developed a certain strategy and has made certain steps to prepare the property repossessed for sale and has started the process of marketing the objects. The Bank has a clear intention to reclassify the property repossessed as Held-for-sale assets till the end of 2010.

## 11. DUE TO CREDIT INSTITUTIONS

Due to credit institutions are comprised as follows:

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| **Demand** | | | | |
| Latvian credit institutions | 131 | 131 | 14,589 | 14,589 |
| **Total demand deposits** | **131** | **131** | **14,589** | **14,589** |
| **Term deposits** | | | | |
| World Bank's transit funds | - | - | 538 | 538 |
| **Due to credit institutions total** | **131** | **131** | **538** | **538** |
| **Total** | **131** | **131** | **15,127** | **15,127** |

## 12. DEPOSITS

Deposits by clients residence are comprised as follows:

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| Residents of the Republic of Latvia | 190,996 | 191,569 | 216,021 | 216,514 |
| Residents of OECD countries | 79,240 | 79,240 | 81,296 | 81,296 |
| Residents of non-OECD countries | 5,962 | 5,962 | 5,124 | 5,124 |
| **Total** | **276,198** | **276,771** | **302,441** | **302,934** |

Demand and term deposits are comprised as follows:

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | Group | Bank | Group | Bank |
| **Demand deposits** | | | | |
| Central governments | 196 | 196 | 111 | 111 |
| Local governments | 7,665 | 7,665 | 2,490 | 2,490 |
| Financial services | 12,292 | 12,460 | 7,113 | 7,164 |
| State controlled companies | 1,924 | 1,924 | 1,579 | 1,579 |
| Corporate | 22,033 | 22,033 | 30,354 | 30,354 |
| Individuals | 66,531 | 66,531 | 58,512 | 58,512 |
| Other | 1,119 | 1,118 | 737 | 737 |
| **Total demand deposits** | **111,760** | **111,927** | **100,896** | **100,947** |
| **Term deposits** | | | | |
| Local governments | 565 | 565 | 814 | 814 |
| Financial services | 106,348 | 106,754 | 123,414 | 123,856 |
| Corporate | 9,755 | 9,755 | 12,259 | 12,259 |
| Individuals | 47,668 | 47,668 | 64,975 | 64,975 |
| Other | 102 | 102 | 83 | 83 |
| **Total term deposits** | **164,438** | **164,844** | **201,545** | **201,987** |
| **Total demand and term deposits** | **276,198** | **276,771** | **302,441** | **302,934** |

As at 30 June 2010 the Group and Bank had one depositor, whose deposit balance exceeded 10% of deposits to customers (as at 31 December 2009: one). The gross value of this deposit as at 30 June 2010 EUR 70,000 thousand (as at 31 December 2009: EUR 70,000 thousand). This deposit has been received from a related party as a collateral for the loan issued to a related party. No deposits are blocked.

## 13. DEBT SECURITIES

The total amount of the debt securities issued by the Bank as at 30 June 2010 consists of mortgage bonds in circulation for the total nominal value including accrued interest) of EUR 5,023 thousand (as of 31 December 2009: EUR 5,026 thousand). The debt securities are quoted on the Riga Stock Exchange. No new emissions or repayment of debt securities have occurred during 6 months 2010.

## 14. SUBORDINATED DEBT

As of 30 June 2010 the total book value of issued subordinated bonds was EUR 3,302 thousand LVL (as of 31 December 2009: EUR 3,519 thousand). Subordinated bonds are recognized at their amortized cost and mature on 10 January 2011. Subordinated bonds have a floating coupon interest rate – 6 months LVL RIGIBOR plus 2.00%. No new emissions or repayment of subordinated debt have occurred during 6 months 2010.

## 15. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are follows:

| | 30.06.2010 | 30.06.2010 | 31.12.2009 | 31.12.2009 |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| Issued guarantees | 1,212 | 1,212 | 1,618 | 1,618 |
| **Total issued guarantees** | **1,212** | **1,212** | **1,618** | **1,618** |
| **Other commitments** | | | | |
| Unused credit lines | 2,742 | 2,742 | 5,476 | 5,476 |
| **Total other commitments** | **2,742** | **2,742** | **5,476** | **5,476** |
| **Total off-balance sheet items** | **3,954** | **3,954** | **7,094** | **7,094** |

***Commitments to extend credit, from guarantees and letters of credit***

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group and Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans and issued guarantees or letters of credit. Unused guarantees limits are being included in off-balance sheet items when the Bank signs it off and issues to the Client. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilized in the extension of loans. The management of the Bank and the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

## 16. RELATED PARTY TRANSACTIONS

The Group's transactions with the related parties are as follows:

| Related party (30.06.2010) | Loans | Total risk transactions (excluding impairment) | Risk transactions to shareholders' equity (excluding impairment) % |
|---|---|---|---|
| Corporates | 68,504 | - | 0 |
| **Total** | **68,504** | **-** | **0** |

| Related party (31.12.2009) | Loans | Total risk transactions (excluding impairment) | Risk transactions to shareholders' equity (excluding impairment) % |
|---|---|---|---|
| Corporates | 72,279 | 3,884 | 10.55 |
| **Total** | **72,279** | **3,884** | **10.55** |

Bank's transactions with the related parties are as follows:

| Related party (30.06.2010) | Loans | Total risk transactions (excluding impairment) | Risk transactions to shareholders' equity (excluding impairment) % |
|---|---|---|---|
| Corporates | 68,504 | - | 0 |
| **Total** | **68,504** | **-** | **0** |

| Related party (31.12.2009) | Loans | Total risk transactions (excluding impairment) | Risk transactions to shareholders' equity (excluding impairment) % |
|---|---|---|---|
| Corporates | 72,279 | 3,884 | 10.55 |
| **Total** | **72,279** | **3,884** | **10.55** |

Bank's related party deposits are as follows:

| | 30.06.2010 | 31.12.2009 |
|---|---|---|
| **Deposits** | 81,859 | 77,736 |
| **Total** | **81,859** | **77,736** |

Bank's and Group's derivative balances with related parties are as follows:

| Derivatives | 30.06.2010 | 31.12.2009 |
|---|---|---|
| Derivative assets | 393 | 2,429 |
| Derivative liabilities | 2,012 | 583 |

Transactions with the related parties:

| | 30.06.2010 Group | 30.06.2010 Bank | 30.06.2009 Group | 30.06.2009 Bank |
|---|---|---|---|---|
| Interest income | 5,081 | 5,081 | 3,951 | 3,951 |
| Interest expense | (2,200) | (2,225) | (2,627) | (2,642) |
| Commissions fee income and other operation income | 139 | 139 | 205 | 205 |
| Net gain on foreign exchange | 1,557 | 1,557 | 11,554 | 11,554 |
| Administrative expenses | (478) | (478) | (404) | (404) |

### 17. TAX EXPENSES

| | 30.06.2010 Group | 30.06.2010 Bank | 30.06.2009 Group | 30.06.2009 Bank |
|---|---|---|---|---|
| Loss before tax | (16,098) | (16,213) | (11,700) | (11,771) |
| Expected tax charge/(benefit), applying current tax rate of 15% | (2,415) | (2,432) | (1,754) | (1,766) |
| Tax effect of non-deductible expenses/exempt income | 71 | 71 | 37 | 37 |
| Unrecognized deferred tax asset from tax losses carried forward | 2,344 | 2,361 | 1,717 | 1,729 |
| **Income tax charge / (benefit)** | **-** | **-** | **-** | **-** |

### 18. SEGMENT REPORTING

The Bank and The Group have no segments of the Interim Condensed Statement of Financial position.
The Bank and the Group have only one segment of the Interim Condensed Income statement and includes all the revenues generated by the Bank and the Group, and can be displayed as follows:

| | Mortgage | | Commercial | | Consumer | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30.06.2010 | 30.06.2009 | 30.06.2010 | 30.06.2009 | 30.06.2010 | 30.06.2009 | 30.06.2010 | 30.06.2009 | 30.06.2010 | 30.06.2009 |
| Revenues | 522 | 1,171 | 6,182 | 6,975 | 781 | 1,430 | 5,169 | 15,640 | 12,655 | 25,216 |
| **Total** | **522** | **1,171** | **6,182** | **6,975** | **781** | **1,430** | **5,169** | **15,640** | **12,655** | **25,216** |

### 19. SUBSEQUENT EVENTS

On 28 July 2010 an increase of share capital of the Bank by LVL 2.5 million was registered in the Commercial Register of Republic of Latvia, which together with the increase in share premium resulted in an increase of the Bank's equity by LVL 10 million. The number of shares was increased from 462,025 to 512,025.

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