

**A/S REĢIONĀLĀ
INVESTĪCIJU BANKA**

**INTERIM SHORT REPORT FOR SIX MONTHS
ENDED 30 JUNE 2008
(non-audited)**

CONTENTS

Report of the Management	3
Statement of Responsibility of the Management	4
Financial Statements:	
Profit and Loss Account	5
Balance Sheet and Memorandum Items	6
Statement of Changes in Equity and Reserves	7
Cash Flow Statement	
Notes to the Financial Statements	9-10

A/S Reģionālā Investīciju banka

2 J. Alunāna Street, Riga, LV-1010, Latvia

Telephone: (371) 7508989

Fax: (371) 7508988

Unified registration number: 4000 356 3375

REPORT OF THE MANAGEMENT

In the first half of 2008, JSC „Reģionālā Investīciju banka” (hereinafter – the Bank) continued its development and growth.

During this period number of Customers and volume of transactions has been increased in the Bank.

Starting from the beginning of this year credit portfolio grew by 41 %, deposit portfolio grew by 46 %, in turn assets of the Bank from the beginning of this year grew by 34 % and on 30 of June, 2008 compiled 105,67 millions LVL.

In the first half of this year depositary and brokerage services of financial instruments were offered to the Customers, a number of Bank information systems and programs were improved, as the result the services offered to Customers rapid and quality improved.

In the first six months of 2008, 13 new employees started their work in the Bank and 7 new units were introduced in the Bank – Corporate Customer Service Department, Supervision and Analysis of Customer's Legal Document Section, Operational Accounting Section, IS Development and Support Section, Credit Risk Analysis Section, Customer Service Section, and Registration and Training Section.

The Bank's financial indicators keep its dynamic growth – the profit of the Bank during first six months of 2008 compiled 1,31 millions LVL, in turn profitability ratio ROA was 2.72 %, and ROE – 21.37% over this period.

On the 30th of January, 2008 were also several changes in the Bank's shareholders – shareholder Haralds Āboliņš sold 4,878% of his shares to “HRG ieguldījumi” Ltd., consequently “HRG ieguldījumi” Ltd. owns 9,756% of JSC “Reģionālā investīciju banka” shares, and it has become the second biggest shareholder of the Bank. The biggest shareholder AB „Pivdenny” owns 89,02% of the Bank's shares.

One of the Bank's strategic tasks is Risk management. Risk management strategy has been developed for the Bank's risk management, which covers management of the following risks: credit risk and residual risk, operational risk, market risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, and country risk.

For the purpose of managing these risks, internal risk management policies and procedures have been developed which are approved by the Bank's Council and/or Board and implemented by the responsible units of the bank.

The main unit responsible for determination, evaluation and oversight of the risks is the Risk Management Department, which is an independent unit whose functions are separated from the functions of the business units.

The risk management system is being constantly improved in accordance with the Bank's activities and external conditions influencing these activities, and regular oversight of this process is performed by the Internal Audit Department.

Future Perspectives

Still this year the Bank is planning to continue its activity and open a branch in Bulgaria. It has also planned to continue improvement financial instruments in the form of depositary and brokerage services, improvement of payment cards offer and promotion. It is planned to improve present Bank's structure, promote application of modern technologies, and upgrade the Bank's services and products.

Haralds Āboliņš
Chairman of the Board,
President

Riga, 20 August 2008

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

Council and Board of the Bank (hereinafter – management) are responsible for the preparation of the financial statements of the Bank.

The financial statement on pages 5 to 10 prepared in accordance with the source documents and present fairly the financial position of the Bank as at 30 June 2008 and the results of its operations and cash flows for the reporting year 2008.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets, and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission, Bank of Latvia and other legislation of the Republic of Latvia applicable for credit institutions.

Haralds Āboliņš
Chairman of the Board,
President

Riga, 20 August 2008

Profit and Loss Account for the six-month period ended 30.06.2008

	Notes	30.06.2008 LVL	30.06.2007 LVL
Interest income		3,483,814	2,682,662
Interest expense		<u>(1,240,182)</u>	<u>(873,486)</u>
Net interest income		2,243,632	1,809,176
Fee and commission income		950,595	673,242
Fee and commission expense		<u>(412,951)</u>	<u>(661,936)</u>
Net fee and commission income		537,644	11,306
Net profit/losses from financial assets and financial liabilities held for trading		136,549	153,810
Net profit/losses from financial assets held for trading and financial liabilities at fair value through profit or loss		12,059	(95,273)
Profit/loss from forex trading and revaluation		115,959	(40,867)
Other operating expense		21,509	1,246
Provisions for loan impairment		(28,306)	8,446
General administrative expense		(1,450,234)	(1,068,514)
Depreciation/wear of intangible assets and fixed assets		(78,197)	(37,354)
Other operating expense		(27,197)	(28,679)
Corporate income tax		<u>(170,656)</u>	<u>(152,265)</u>
Profit for the accounting period		<u>1,312,762</u>	<u>561,032</u>

Notes are an integral part of these Financial Statements.

Balance Sheet as at 30 June 2008

	Notes	30.06.2008 LVL	31.12.2007 LVL
<u>Assets</u>			
Cash and balances with the Bank of Latvia	1	7,526,235	6,875,778
Balances due from credit institutions	2	22,332,583	16,802,948
Loans and advances	3	68,375,415	48,452,533
Financial assets at fair value through profit or loss	4		
		6,026,343	5,779,204
Derivative financial instruments		334,848	82,970
Intangible assets		253,753	263,758
Fixed assets		251,361	279,305
Other assets		472,100	437,371
Deferred expenses and accrued income		93,164	91,040
Corporate income tax		0	45,317
Total assets		105,665,802	79,110,224
<u>Liabilities</u>			
Issued debt securities		2,850,438	2,850,438
Balances due to other credit institutions		13,504,429	12,487,226
Deposits	5	75,315,946	51,691,532
Derivative financial instruments		81,785	116,270
Other liabilities		966,604	160,326
Deferred income and accrued expense		131,932	302,526
Deferred tax liabilities		8,779	8,779
Total liabilities		92,859,913	67,617,097
<u>Equity and reserves</u>			
Fixed capital		8,200,000	8,200,000
Retained earnings		3,293,127	2,286,403
Profit for the accounting year		1,312,762	1,006,724
Total equity and reserves		12,805,889	11,493,127
Total liabilities and equity		105,665,802	79,110,224
<u>Memorandum items</u>			
Contingent liabilities		139,022	570,559
Off-balance liabilities against clients		10,041,522	11,598,598
Assets under trust management		2,531,032	1,674,335

Notes are an integral part of these Financial Statements.

Statement of Changes in Equity and Reserves for the six-month period ended 30.06.2008

	Fixed capital	Retained earnings	Total
	LVL	LVL	LVL
As at 31 December 2006	5,500,000	2,286,403	7,786,403
Profit for the accounting year	-	1,006,724	1,006,724
Increase of the fixed capital	2,700,000	-	2,700,000
As at 31 December 2007	8,200,000	3,293,127	11,493,127
Profit for the accounting period		1`312`762	1`312`762
As at 30 June 2008	8,200,000	4`605`889	12`805`889

Notes are an integral part of these Financial Statements.

Cash Flow Statement for the six-month period ended 30.06.2008

	Notes	30.06.2008 LVL	30.06.2007 LVL
Cash flow from operating activities			
Profit before corporate income tax		1'483'418	640,826
Depreciation/wear of intangible assets and fixed assets		78'197	37,354
Increase of provisions for loan impairment		(12'831)	(16,407)
(Profit) / losses from revaluation of forex items		(115'959)	40,867
(Profit) / losses from revaluation of trading securities		(12'059)	95,273
(Profit) / losses from revaluation of derivative financial instruments		(286'363)	0
Prepaid expense and decrease/(increase) of accrued income		(2'124)	(95,714)
Deferred income and increase of accrued expense		(170'594)	30,697
Decrease/(increase) of other assets		(34'729)	(842,686)
Decrease/(increase) of other liabilities		806'278	726,224
Increase in cash and cash equivalents as a result of operating activities, before changes in assets and liabilities		1'733'234	616,434
Decrease/(increase) of trading securities		(235'080)	(2,781,904)
Increase of balances due from credit institutions		(596'326)	(1,000,000)
Increase in loans		(19'910'051)	(2,600,396)
Increase in deposits		23'624'414	21,376,625
Increase in cash and cash equivalents as a result of operating activities, before corporate income tax		4'616'191	21,174,567
Corporate income tax paid		(125'339)	(46,124)
Net cash and cash equivalents as a result of operating activities		4'490'852	21,128,443
Cash flow from investment activities			
Purchase of fixed assets and intangible investments		(40'248)	(153,182)
Decrease in cash and cash equivalents as a result of investment activities		(40'248)	(153,182)
Net increase in cash and cash equivalents as a result of financing activities		0	0
Net increase in cash and cash equivalents for the accounting period		4'450'604	20,975,261
Cash and cash equivalents at the beginning of the accounting period		9'104'992	16,259,245
Impact of revaluation of forex item on cash and cash equivalents		115'959	(40,867)
Cash and cash equivalents at the end of the accounting period	6	13'671'555	37,193,639

Notes are an integral part of these Financial Statements.

1. Cash and balances with the Bank of Latvia

	30.06.2008. LVL	31.12.2007. LVL
Cash	537,334	602,708
Balances on demand with the Bank of Latvia	6'988'901	6,273,070
	<u>7,526,235</u>	<u>6,875,778</u>

2. Balances due from credit institutions

	30.06.2008. LVL	31.12.2007. LVL
Due from credit institutions of the Republic of Latvia	6,635,588	7,898,225
Due from a credit institution of non-OECD country	8,379,554	2,231,352
Due from credit institutions of OECD countries	7,294,738	6,605,599
Accrued interest receivable	22,703	67,772
	<u>22,332,583</u>	<u>16,802,948</u>

The following table discloses balances due from credit institutions between demand and term deposits:

On demand	10,107,707	7,898,225
Balances with maturity of 3 months and less	9,534,223	2,231,352
Other balances	2,667,950	6,605,599
Accrued interest receivable	22,703	67,772
Total due from credit institutions	<u>22,332,583</u>	<u>16,802,948</u>

3. Loans and advances

(a) Break-down of loans by client and loan types

	30.06.2008. LVL	31.12.2007. LVL
Corporate	63,996,281	44,526,584
Individuals	4,577,346	4,256,271
Gross loans	<u>68,573,627</u>	<u>48,782,855</u>
Provisions for loan impairment	(527,367)	(540,198)
Accrued interest receivable	329,155	209,876
Net loans	<u>68,375,415</u>	<u>48,452,533</u>

(b) Changes in provisions for loan impairment and decrease of accrued income value

	Loans LVL	Accrued interest LVL	Total LVL
As at 31 December 2006	288,386	-	288,386
Increase in 2007	316,383	-	316,383
Decrease in 2007	(33,841)	-	(33,841)
Foreign exchange difference	(30,730)	-	(30,730)
As at 31 December 2007	<u>540,198</u>	-	<u>540,198</u>
Increase in the accounting period	49,664	-	49,664
Decrease in the accounting period	(21,992)	-	(21,992)
Foreign exchange difference	(40,503)	-	(40,503)
As at 30 June 2008	<u>527,367</u>	-	<u>527,367</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Financial assets at fair value through profit or loss

	30.06.2008. LVL	31.12.2007. LVL
Latvian government debt securities	2,309,129	2,283,249
Government debt securities of non-OECD region	2,008,030	2,420,836
Latvian corporate debt securities	1,709,184	1,075,119
	<u>6,026,343</u>	<u>5,779,204</u>

All securities were purchased for trading purposes and are disclosed at their fair value. Latvian government debt securities and Latvian corporate debt securities are listed at Riga Stock Exchange. Government debt securities of non-OECD region are listed at stock exchanges of the relevant regions.

5. Deposits

(a) Analysis of deposits by client type

	30.06.2008. LVL	31.12.2007. LVL
Deposit maturity:		
Demand deposits	39,114,475	28,286,420
Term deposits	35,792,132	23,198,839
Accrued interest receivable	409,339	206,273
Total deposits:	<u>75`315`946</u>	<u>51,691,532</u>

Sector:

Private companies	59,280,366	41,109,981
Private persons	12,275,082	7,906,823
Financial institutions	3,313,105	2,428,897
Non-commercial institutions	35,668	37,172
Central government	2,386	2,386
Accrued interest receivable	409,339	206,273
Total deposits:	<u>75`315`946</u>	<u>51,691,532</u>

(b) Analysis of deposits by deposit geography

	30.06.2008. LVL	31.12.2007. LVL
Non-residents	58,667,233	40,485,695
Residents	16,239,374	10,999,564
Accrued interest receivable	409,339	206,273
Total deposits:	<u>75`315`946</u>	<u>51,691,532</u>

6. Cash and cash equivalents

	30.06.2008. LVL	30.06.2007. LVL
Cash and balances with the Bank of Latvia	7`526`235	2,575,204
Balances with maturity of 3 months and less	19`649`749	34,686,754
Due to other credit institutions	(13`504`429)	(68,319)
	<u>13`671`555</u>	<u>37,193,639</u>