

**AS “PrivatBank”**

Condensed Consolidated and Bank  
Interim Financial Statements  
for the six month period ended  
30 June 2010

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## MANAGEMENT REPORT

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Honourable shareholders, customers and partners!

The first half of the year 2010 acknowledged that the far-sighted policy of the bank in the market of Latvia has justified itself. It is no longer about overcoming the crisis, but instead sustained growth and expansion both in Latvia and in Europe is expected.

In the first half of the year, the credit portfolio of the bank, made of the consumer and commercial loans, has grown to 120 million lats. The total amount of deposits has reached 186 million lats, which is by 38% more than in the previous reporting period. The bank's assets currently amount to 238 million lats, which is by 42% more than at the end of the first half of the last year.

In May 2010, AS "PrivatBank" increased its share capital to 40 470 00 lats. This will allow the bank to expand its business by investing in the development of business technologies, as well as improving the range of products targeted at services for individuals and corporate clients.

The regulatory liquidity index of AS "PrivatBank" is 122.73% (minimum requirement - 30%). The capital adequacy ratio of the Bank is also more than stable - 19.98% instead of 8% set by the regulations.

PrivatBank Banking group, which also includes AS "PrivatBank", holds the 416th place in The Banker magazine's Top 1000 World Banks list with its equity capital of 1,365 million U.S. dollars. The Banker's evaluation serves as a confirmation of high quality financial services of the banking group, focusing on growth during the crisis and the ability to achieve its goals.

In this half of the year, AS "PrivatBank" has attracted many new clients by developing up-to-date banking services and packages for customers. This was possible both due to the special offers providing services at reduced price or even for free, and due to the deposits with traditionally among the highest interest rates at AS "PrivatBank" as well.

The possibility not to overpay for the financial services necessary for the companies, within the framework of the special offer "Everything a company needs for only 5 lats", has increased the number of corporate clients significantly. Thinking about the development of enterprises during the expected economic growth, the Bank has prepared a special loan – Micro Overdraft.

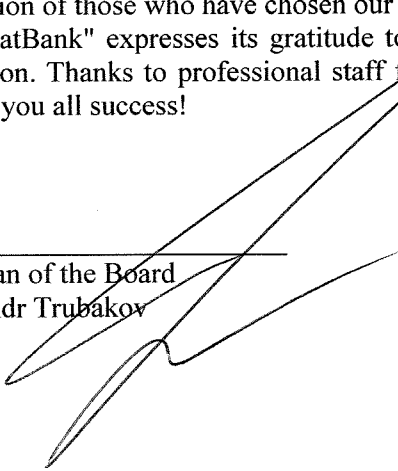
Children's Money Box has complemented the deposit product range of AS "PrivatBank" giving parents the possibility to apply for a profitable deposit under his/her child's name, and ensuring a good starting point in the independent life of a child at the age of 18, when the deposit will be delivered in his/her hands.

Alongside with the rapid development of up-to-date products for customers in Latvia, AS "PrivatBank" has also worked efficiently outside Latvia – on June 1, 2010 in Rome, the Italian branch of the bank opened its doors to customers. In the premises of AS "PrivatBank" Filiale in Italia, located near the Vatican, clients can receive a wide range of financial services not only in Italian but also in the Latvian, English, Russian, and Ukrainian languages. The branch of AS "PrivatBank" in Portugal, in its turn, plans to expand its customer service network.

AS "PrivatBank" is sincerely grateful for the confidence of its existing customers and for the high appreciation of those who have chosen our bank as their partner this year.

AS "PrivatBank" expresses its gratitude to all customers and partners of AS "PrivatBank" for their cooperation. Thanks to professional staff for their contribution to the development of the bank, too. We wish you all success!

\_\_\_\_\_  
Chairman of the Board  
Oleksandr Trubakov





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## **Independent Auditors' Report**

### **To the shareholders of AS PrivatBank**

#### **Report on the Interim Condensed Consolidated and Bank Financial Information**

We have audited the accompanying interim condensed separate financial information of AS PrivatBank ("the Bank"), which comprise the interim condensed statement of financial position as at 30 June 2010, the interim condensed statements of comprehensive income, changes in equity and 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 5 to 35. We have also audited the accompanying interim condensed consolidated financial information of AS "PrivatBank" and its subsidiary companies ("the Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2010, the interim condensed consolidated statements of comprehensive income, changes in equity and 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 5 to 35.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of this interim condensed separate and consolidated 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 are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on this interim condensed separate and consolidated 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 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 Group's preparation and fair presentation of the 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 Group's 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 financial information.

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



*Opinion*

In our opinion, the interim condensed separate financial information of AS PrivatBank is prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

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

KPMG Baltics SIA  
Licence Nr. 55

*Ondrej Fikrle*

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

*Armine Movsisjana*

Armine Movsisjana  
Sworn Auditor  
Certificate No 178

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 STATEMENT OF COMPREHENSIVE INCOME**

	Note	Six months ended 30 June			
		Group 2010 '000 LVL	Bank 2010 '000 LVL	Group 2009 '000 LVL	Bank 2009 '000 LVL
Interest income	7	3 363	3 500	5 189	5 092
Interest expense	7	(4 899)	(5 043)	(3 045)	(3 066)
<b>Net interest income</b>		<b>(1 536)</b>	<b>(1 543)</b>	<b>2 144</b>	<b>2 026</b>
Fee and commission income	8	2 154	2 154	1 325	1 326
Fee and commission expense	9	(276)	(276)	(293)	(284)
<b>Net fee and commission income</b>		<b>1 878</b>	<b>1 878</b>	<b>1 032</b>	<b>1 042</b>
Net gain/(loss) on financial instruments at fair value through profit or loss		-	-	4	4
Net foreign exchange income		1 964	1 980	2 130	2 142
Other income/(expenses)		(53)	(86)	162	(94)
<b>Operating income</b>		<b>2 253</b>	<b>2 229</b>	<b>5 472</b>	<b>5 120</b>
Impairment losses	10	(3 110)	(2 800)	(7 496)	(6 224)
General administrative expenses		(3 089)	(2 945)	(3 739)	(3 542)
<b>Loss before income tax</b>		<b>(3 946)</b>	<b>(3 516)</b>	<b>(5 763)</b>	<b>(4 646)</b>
Income tax benefit/ (expense)	11	7	7	(26)	-
<b>Loss for the period</b>		<b>(3 939)</b>	<b>(3 509)</b>	<b>(5 789)</b>	<b>(4 646)</b>
<b>Other comprehensive income for the period</b>		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>(3 939)</b>	<b>(3 509)</b>	<b>(5 789)</b>	<b>(4 646)</b>

The accompanying notes on pages 11 to 35 are an integral part of the condensed consolidated and Bank interim financial statements.

The condensed consolidated and Bank interim financial statements as set out on pages 5 to 35 were approved by the Board of Directors on 13 August 2010.

\_\_\_\_\_  
Chairman of the Board  
Oleksandr Trubakov

\_\_\_\_\_  
Deputy of Chief Accountant  
Jelena Ivanova

**CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF FINANCIAL POSITION**

As at 30 June 2010

	Note	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>ASSETS</b>					
Cash and balances with the Bank of Latvia	12	44 478	44 478	9 953	9 953
Financial instruments at fair value through profit or loss	13	-	5	299	299
Loans and receivables from financial institutions	14	78 541	78 541	80 963	80 963
Loans and receivables from customers	15	99 738	108 462	82 858	86 971
Available-for-sale assets	16	28	28	70	28
Held-to-maturity assets	17	4 481	4 481	-	-
Investments in subsidiaries		-	14	-	14
Property and equipment		1 006	971	1 153	1 071
Investment property	18	6 124	-	551	-
Intangible assets		136	105	142	112
Deferred tax asset		133	-	40	-
Prepaid income tax		66	47	64	39
Other assets		3 554	2 462	4 644	1 872
<b>Total Assets</b>		<b>238 285</b>	<b>239 594</b>	<b>180 737</b>	<b>181 322</b>

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Chairman of the Board  
Oleksandr Trubakov

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Deputy of Chief Accountant  
Jelena Ivanova

**CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF FINANCIAL POSITION**

As at 30 June 2010

	Note	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Financial instruments at fair value through profit or loss	13	-	-	21	21
Deposits and balances from banks	19	8 826	8 826	16 077	16 077
Current accounts and deposits from customers	20	185 717	185 866	133 996	134 135
Provisions		437	417	432	332
Mortgage bonds	21	4 925	4 925	11 272	11 272
Subordinated borrowings	22	7 449	7 449	6 357	6 357
Deferred tax liability		14	14	29	29
Other liabilities	23	5 730	5 583	3 662	3 311
<b>Total Liabilities</b>		<b>213 098</b>	<b>213 080</b>	<b>171 846</b>	<b>171 534</b>
Share capital	24	40 470	40 470	20 235	20 235
Other reserves		3 793	3 793	3 793	3 793
Accumulated losses		(19 076)	(17 749)	(15 137)	(14 240)
<b>Total Equity</b>		<b>25 187</b>	<b>26 514</b>	<b>8 891</b>	<b>9 788</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>238 285</b>	<b>239 594</b>	<b>180 737</b>	<b>181 322</b>
Commitments and Contingencies		2 152	2 152	2 145	2 145

The accompanying notes on pages 11 to 35 are an integral part of the condensed consolidated and Bank interim financial statements.

The condensed consolidated and Bank interim financial statements as set out on pages 5 to 35 were approved by the Board of Directors on 13 August 2010.

Chairman of the Board  
Oleksandr Trubakov

Deputy of Chief Accountant  
Jelena Ivanova

## CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF CASH FLOWS

	Six month period ended 30 June			
	Group 2010 '000 LVL	Bank 2010 '000 LVL	Group 2009 '000 LVL	Bank 2009 '000 LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before income tax	(3 946)	(3 516)	(5 763)	(4 646)
Amortisation and depreciation	249	230	372	287
Impairment losses (recoveries)	3 110	2 800	7 496	6 224
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>	<b>(587)</b>	<b>(486)</b>	<b>2 105</b>	<b>1 865</b>
Decrease in loans and receivables from financial institutions	1 515	1 515	2 550	2 550
Increase in loans and receivables from customers	(19 741)	(24 119)	4 524	4 302
(Increase)/decrease in assets available-for-sale	42	-	(35)	(2)
(Increase)/ decrease in financial instruments at fair value through profit or loss	278	273	(629)	(722)
Increase/ (decrease) in provisions	(10)	85	(2)	(3)
(Increase)/decrease in other assets	995	(598)	(1 646)	581
Increase/ (decrease) in deposits and balances from banks	699	699	(7 076)	(7 076)
Increase/ (decrease) in current accounts and deposits from customers	51 721	51 731	(25 257)	(25 476)
Increase in other liabilities	2 068	2 257	3 648	1 320
<b>Increase in cash and cash equivalents from operating activities before corporate income tax</b>	<b>36 980</b>	<b>31 357</b>	<b>(21 818)</b>	<b>(22 661)</b>
Corporate income tax paid	(66)	(47)	(89)	(44)
<b>Net cash and cash equivalents from/(used in) operating activities</b>	<b>36 914</b>	<b>31 310</b>	<b>(21 907)</b>	<b>(22 705)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(272)	(243)	(55)	(55)
Purchase of equity investments in other entities and acquisition of subsidiaries	-	-	-	(2)
Acquisition of goodwill	-	-	(800)	-
Investment property	(5 573)	-	-	-
Proceeds from sale of property, plant and equipment	-	2	4	4
Purchase of held-to-maturity assets	(4 481)	(4 481)	-	-
<b>Increase in cash and cash equivalents from investing activities</b>	<b>(10 326)</b>	<b>(4 722)</b>	<b>(851)</b>	<b>(53)</b>

## CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF CASH FLOWS

		Six month period ended 30 June			
		Group	Bank	Group	Bank
		2010	2010	2009	2009
Note		'000 LVL	'000 LVL	'000 LVL	'000 LVL
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
	Share issue	20 235	20 235	-	-
	Decrease in issued mortgage bonds	(6 347)	(6 347)	(3 476)	(3 476)
	Subordinated deposit	1 092	1 092	6 513	6 513
	<b>Decrease in cash and cash equivalents from financing activities</b>	<b>14 980</b>	<b>14 980</b>	<b>3 037</b>	<b>3 037</b>
	<b>Net cash flow for the period</b>	<b>41 568</b>	<b>41 568</b>	<b>(19 721)</b>	<b>(19 721)</b>
	<b>Cash and cash equivalents at the beginning of the year</b>	<b>26 850</b>	<b>26 850</b>	<b>28 984</b>	<b>28 984</b>
	<b>Cash and cash equivalents at the end of the year</b>	<b>68 418</b>	<b>68 418</b>	<b>9 263</b>	<b>9 263</b>
25					

The accompanying notes on pages 11 to 35 are an integral part of the condensed consolidated and Bank interim financial statements.

The condensed consolidated and Bank interim financial statements as set out on pages 5 to 35 were approved by the Board of Directors on 13 August 2010.

\_\_\_\_\_  
Chairman of the Board  
Oleksandr Trubakov

\_\_\_\_\_  
Deputy of Chief Accountant  
Jelena Ivanova

**CONDENSED CONSOLIDATED AND BANK INTERIM STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY**

For the six months period ended 30 June 2010

**Group**

	Share capital	Other reserves	Retained earnings/ (Accumulated losses)	Total equity
	'000 LVL	'000 LVL	'000 LVL	'000 LVL
<b>Balance at 1 January 2009</b>	10 650	3 749	690	15 089
Transfer to Reserves	-	44	(44)	-
Total comprehensive income	-	-	(5 789)	(5 789)
<b>Balance at 30 June 2009</b>	10 650	3 793	(5 143)	9 300
Increase in share capital	9 585	-	-	9 585
Total comprehensive income	-	-	(9 994)	(9 994)
<b>Balance at 31 December 2009</b>	20 235	3 793	(15 137)	8 891
Increase in share capital	20 235	-	-	20 235
Total comprehensive income	-	-	(3 939)	(3 939)
<b>Balance at 30 June 2010</b>	40 470	3 793	(19 076)	25 187

**Bank**

	Share capital	Other reserves	Retained earnings / (Accumulated losses)	Total equity
	'000 LVL	'000 LVL	'000 LVL	'000 LVL
<b>Balance at 1 January 2009</b>	10 650	3 749	238	14 637
Transfer to Reserves	-	44	(44)	-
Total comprehensive income	-	-	(4 646)	(4 646)
<b>Balance at 30 June 2009</b>	10 650	3 793	(4 452)	9 991
Increase of share capital	9 585	-	-	9 585
Total comprehensive income	-	-	(9 788)	(9 788)
<b>Balance at 31 December 2009</b>	20 235	3 793	(14 240)	9 788
Increase of share capital	20 235	-	-	20 235
Total comprehensive income	-	-	(3 509)	(3 509)
<b>Balance at 30 June 2010</b>	40 470	3 793	(17 749)	26 514

The accompanying notes on pages 11 to 35 are an integral part of the condensed consolidated and Bank interim financial statements.

The condensed consolidated and Bank interim financial statements as set out on pages 5 to 35 were approved by the Board of Directors on 13 August 2010.

Chairman of the Board  
Oleksandr Trubakov

Deputy of Chief Accountant  
Jelena Ivanova

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

### 1 Background

#### (a) Principal activities

AS "PrivatBank" (the "Bank") was established in the Republic of Latvia ("Latvia") as a joint stock company and was granted its general banking license on 31 July 1992 (reissued on 17 September 1998). 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 Bank has 12 branches and 10 cash offices from which it conducts business throughout Latvia and 1 branch in Portugal and Italy each. The registered address of the Bank's head office is Terbatas street 4, Riga, Latvia. The majority of the Bank's assets and liabilities are located in Latvia.

The consolidated financial statements include the financial statements of AS "PrivatBank" (the "Bank") and its subsidiaries (together referred to as the "Group").

The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Ownership %	
			30 June 2010	31 December 2009
SIA "PrivatLizings"	Latvia	Finance and operating lease activities	100	100
SIA "PrivatConsulting"	Latvia	Consulting and travel services	100	100
SIA "Amber Real"	Latvia	Real estate company	100	100

### 2 Basis of preparation

#### (a) Statement of compliance

These condensed consolidated and Bank interim financial statements of the Group and Bank are prepared in accordance with International Financial Reporting Standard IAS 34 *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 consolidated financial statements of the Group and Bank as at and for the year ended 31 December 2009.

The condensed consolidated and Bank interim financial statements were authorised for issue by the Management Board on 13 August 2010. The financial statements may be amended by shareholders.

The audited consolidated and Bank financial statements of the Bank and the Group as at and for the year ended 31 December 2009 are available at the Bank's web site, [www.privatbank.lv](http://www.privatbank.lv).

#### (b) Functional and Presentation Currency

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

### 3 Significant accounting policies

Except as described below, the accounting policies applied by the Group and the Bank in these condensed interim financial statements are the same as those applied by the Group and the Bank in its consolidated and Bank 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.

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

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### New standards and interpretations

*New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2010, and which the Group and the Bank have applied:*

Revised IFRS 3 “Business Combinations”. The revised standard introduces a number of changes in the accounting for business combinations that impacts the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The change in accounting policy has been applied prospectively and had no impact on the Group’s and the Bank’s earnings as no acquisitions occurred on or after 1 January 2010.

Other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2010 have not been applied by the Group and Bank as they are not relevant for the Group and Bank.

*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 Bank’s financial statements as the Group and Bank is not a first time adopter.
- 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 Bank’s financial statements as the Group and Bank is not a government-related entity 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 Bank’s financial statements as the Group and Bank has 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

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

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which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Group's and Bank's financial statements as the Group and Bank does 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 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 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.

### **4 Risk management**

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

### **5 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 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 was in compliance with the statutory capital ratio during the six months periods ended 30 June 2009, 31 December 2009 and 30 June 2010.

The Group's risk based capital adequacy ratio, as at 30 June 2010, was 19.98% (31 December 2009: 9.99% and 30 June 2009: 9.34%).

### **6 Use of estimates and judgements**

The preparation of the Group and Bank 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 consolidated and Bank interim financial statements, the significant judgements made by management in applying the Group's and Bank'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.

During the six months ended 30 June 2010, management recalculated the loan impairment allowance specified in Note 15. The Group and Bank have used the same estimation assumptions as during the year ended 31 December 2009.

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

These are:

- Allowances for credit losses;
- Valuation of financial instruments;
- Impairment of financial instruments (other than loans);
- Valuation of investment property;
- Valuation of stock shown under other assets;
- Determining fair values;
- Impairment of goodwill;
- Fair value of financial instruments.

**7 Net interest income**

	Six months ended 30 June			
	Group 2010 '000 LVL	Bank 2010 '000 LVL	Group 2009 '000 LVL	Bank 2009 '000 LVL
<b>Interest income</b>				
Loans and receivables due from customers	2 018	2 155	4 153	4 056
Loans and receivables due from banks	1 187	1 187	876	876
Held-to-maturity investments	52	52	-	-
Penalties from delayed interest payments	105	105	158	158
Other	1	1	2	2
<b>Total interest income</b>	<b>3 363</b>	<b>3 500</b>	<b>5 189</b>	<b>5 092</b>
<b>Interest expense</b>				
Current accounts and deposits from customers	4 116	4 260	2 165	2 188
Mortgage bonds	126	126	366	366
Deposits and balances from banks	479	479	391	391
Payments to Deposit guarantee fund	178	178	121	121
Other	-	-	2	-
<b>Total interest expense*</b>	<b>4 899</b>	<b>5 043</b>	<b>3 045</b>	<b>3 066</b>

\*Maturity structure of customer deposits as per agreement terms disclosed in Note 20.

**8 Fee and commission income**

	Six months ended 30 June			
	Group 2010 '000 LVL	Bank 2010 '000 LVL	Group 2009 '000 LVL	Bank 2009 '000 LVL
Current account servicing	1 106	1 106	879	879
Payments cards servicing	116	116	134	134
Asset management fees	791	791	115	115
Other commission income	141	141	197	198
<b>Total</b>	<b>2 154</b>	<b>2 154</b>	<b>1 325</b>	<b>1 326</b>

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**9 Fee and commission expense**

	Six months ended 30 June			
	Group	Bank	Group	Bank
	2010	2010	2009	2009
	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Commission fee for transfers	124	124	124	124
Commission fee for credit card servicing	31	31	32	32
Encashment fees	33	33	26	26
Other	88	88	111	102
<b>Total</b>	<b>276</b>	<b>276</b>	<b>293</b>	<b>284</b>

**10 Impairment losses**

	Six months ended 30 June			
	Group	Bank	Group	Bank
	2010	2010	2009	2009
	'000 LVL	'000 LVL	'000 LVL	'000 LVL
<b>Impairment losses</b>				
Loans and receivables from customers	4 973	4 482	7 022	6 548
Goodwill	-	-	800	-
	<b>4 973</b>	<b>4 482</b>	<b>7 822</b>	<b>6 548</b>
<b>Reversals of impairment losses</b>				
Loans and receivables from customers	(1 863)	(1 682)	(326)	(324)
	<b>(1 863)</b>	<b>(1 682)</b>	<b>(326)</b>	<b>(324)</b>
<b>Net impairment losses</b>	<b>3 110</b>	<b>2 800</b>	<b>7 496</b>	<b>6 224</b>

**11 Income tax expense**

	Six month ended 30 June			
	Group	Bank	Group	Bank
	2010	2010	2009	2009
	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Profit/(loss) before tax	(3 946)	(3 516)	(5 763)	(4 646)
Expected tax charge, applying current tax rate of 15%	(592)	(527)	(864)	(697)
Net of non-deductible expenses and exempt income and other reconciling items	-	9	1	1
Increase in deferred tax asset not recognized	599	525	889	696
<b>Income tax charge / (benefit)</b>	<b>(7)</b>	<b>(7)</b>	<b>26</b>	<b>-</b>

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**12 Cash and balances with the Bank of Latvia**

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
Cash	1 349	1 349	1 481	1 481
Due from Bank of Latvia	34 245	34 245	1 968	1 968
Minimum reserve deposit	8 884	8 884	6 504	6 504
	<u>44 478</u>	<u>44 478</u>	<u>9 953</u>	<u>9 953</u>

**13 Financial instruments at fair value through profit or loss**
**Group**
**Derivative financial instruments**

	Notional amount		Fair value			
	30.06.2010	31.12.2009	Assets		Liabilities	
LVL '000	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Forward currency exchange agreements	14 724	13 239	-	299	-	21
<b>Total</b>	<u>14 724</u>	<u>13 239</u>	<u>-</u>	<u>299</u>	<u>-</u>	<u>21</u>

**Bank**
**Derivative financial instruments**

	Notional amount		Fair value			
	30.06.2010	31.12.2009	Assets		Liabilities	
LVL '000	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Forward currency exchange agreements	17 353	13 239	5	299	-	21
<b>Total</b>	<u>17 353</u>	<u>13 239</u>	<u>5</u>	<u>299</u>	<u>-</u>	<u>21</u>

Derivative financial instruments held as at 30 June 2010 comprise contracts in LVL and EUR. Maturities of derivatives vary from 6 July 2010 to 14 July 2010.

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

**14 Loans and receivables from financial institutions**

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>Nostro accounts</b>				
Latvian commercial banks	498	498	694	694
OECD banks	2 392	2 392	5 452	5 452
Non-OECD banks	297	297	1 132	1 132
<b>Total nostro accounts</b>	<b>3 187</b>	<b>3 187</b>	<b>7 278</b>	<b>7 278</b>
<b>Loans and deposits</b>				
Latvian commercial banks	246	246	3 323	3 323
OECD banks	74 292	74 292	67 078	67 078
Non-OECD banks	816	816	3 284	3 284
<b>Total loans and deposits</b>	<b>75 354</b>	<b>75 354</b>	<b>73 685</b>	<b>73 685</b>
	<b>78 541</b>	<b>78 541</b>	<b>80 963</b>	<b>80 963</b>

Correspondent accounts include amounts due from Deutsche Bank (Bankers Trust) amounting to USD 51 thousand or LVL 29 thousand which are not included in the calculation of cash and cash equivalents due to such amounts being frozen as at 30 June 2010. The Bank's management does not consider the frozen accounts at risk since the frozen customer accounts in deposits exceed the blocked amount in the correspondent account with Deutsche Bank (Bankers Trust) of USD 170 thousand (or LVL 85 thousand).

**Concentration of placements with banks and other financial institutions**

As at 30 June 2010 and 31 December 2009, the Group and the Bank had 2 and 3 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 and 31 December 2009 was LVL 63,243 thousand and LVL 66,928 thousand, respectively.

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**15 Loans and receivables from customers**

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>Commercial loans</b>				
Loans to corporates	24 656	44 787	-	15 197
Loans to small and medium size companies	31 372	22 936	32 248	24 750
<b>Total commercial loans</b>	<b>56 028</b>	<b>67 723</b>	<b>32 248</b>	<b>39 947</b>
<b>Loans to individuals</b>				
Consumer loans	1 491	1 491	1 083	1 083
Credit cards	2 027	2 028	1 936	1 936
Auto loans	2 806	-	2 984	-
Mortgage loans	57 155	55 546	61 597	59 991
Other	214	214	206	206
<b>Total loans to individuals</b>	<b>63 693</b>	<b>59 279</b>	<b>67 806</b>	<b>63 216</b>
<b>Gross loans and advances to customers</b>	<b>119 721</b>	<b>127 002</b>	<b>100 054</b>	<b>103 163</b>
Impairment allowance	(19 983)	(18 540)	(17 196)	(16 192)
<b>Net loans and advances to customers</b>	<b>99 738</b>	<b>108 462</b>	<b>82 858</b>	<b>86 971</b>

As at six month period ended 30 June 2010 the Bank has renegotiated 824 loans to corporates and individuals that would otherwise be past due or impaired of LVL 31 058 thousand (31 December 2009: 1 338; LVL 40 645 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>Allowances for impairment losses at beginning of the period</b>	<b>17 196</b>	<b>16 192</b>	<b>2 779</b>	<b>2 473</b>
<i>Increase in the loan loss allowances</i>	4 973	4 482	15 626	14 887
<i>Recovery of prior period loan loss allowances</i>	(1 863)	(1 682)	(595)	(553)
<b>Total net impairment for current period</b>	<b>3 110</b>	<b>2 800</b>	<b>15 031</b>	<b>14 334</b>
Elimination of loan loss allowances to written-off loans	(400)	(529)	(614)	(615)
Effect of foreign currency translation	77	77	-	-
<b>Total allowances at the end of the period</b>	<b>19 983</b>	<b>18 540</b>	<b>17 196</b>	<b>16 192</b>

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**Finance lease receivables**

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Group is lessor:

<b>LVL'000</b>	<b>30 June 2010</b>	<b>31 Dec 2009</b>
Gross investment in finance leases, receivable:		
Less than one year	1 532	657
Between one and five years	6 526	7 765
More than five years	627	1 748
	<b>8 685</b>	<b>10 170</b>
Unearned finance income for remaining period of finance leases	(1 127)	(1 609)
<b>Net investment in finance leases</b>	<b>7 558</b>	<b>8 561</b>

**The net investment in finance leases comprises:**

Less than one year	1 519	584
Between one and five years	5 575	6 664
More than five years	464	1 313
	<u><b>7 558</b></u>	<u><b>8 561</b></u>

**Industry analysis of the loan portfolio**

	<b>Group 30 June 2010 '000 LVL</b>	<b>Bank 30 June 2010 '000 LVL</b>	<b>Group 31 Dec 2009 '000 LVL</b>	<b>Bank 31 Dec 2009 '000 LVL</b>
Trade	3 941	3 668	4 596	4 350
Manufacturing	11 393	11 039	2 111	1 892
Mining/metallurgy	685	380	888	375
Finance	12 073	23 255	8 774	17 390
Real estate	6 229	6 111	6 449	6 339
Agriculture, forestry and timber	1 310	842	1 390	825
Other commercial loans	20 397	22 428	8 040	8 776
Loans to individuals	63 693	59 279	67 806	63 216
	<u><b>119 721</b></u>	<u><b>127 002</b></u>	<u><b>100 054</b></u>	<u><b>103 163</b></u>
Impairment allowance	(19 983)	(18 540)	(17 196)	(16 192)
	<u><b>99 738</b></u>	<u><b>108 462</b></u>	<u><b>82 858</b></u>	<u><b>86 971</b></u>

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**Geographical analysis of the loan portfolio**

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
Latvia	98 140	105 515	98 028	101 137
OECD countries	5 407	5 407	1 218	1 218
Non-OECD countries	16 174	16 080	808	808
	<b>119 721</b>	<b>127 002</b>	<b>100 054</b>	<b>103 163</b>
Impairment allowance	(19 983)	(18 540)	(17 196)	(16 192)
	<b>99 738</b>	<b>108 462</b>	<b>82 858</b>	<b>86 971</b>

**Credit quality of commercial loan portfolio**
*Analysis of collateral*

The following table provides the analysis of commercial loan portfolio, net of impairment, by types of collateral as at 30 June 2010:

**Group:**

	30 June 2010	% of loan portfolio	31 Dec 2009	% of loan portfolio
Real estate	12 852	26	17 324	66
Motor vehicles	4 627	9	5 603	21
Commercial pledge	4 092	8	1 063	4
Deposits	1 413	3	1	-
Other collateral	7 620	15	1 597	7
No collateral	19 251	39	540	2
<b>Total</b>	<b>49 855</b>	<b>100</b>	<b>26 128</b>	<b>100</b>

**Bank**

	30 June 2010	% of loan portfolio	31 Dec 2009	% of loan portfolio
Real estate	21 259	34	20 035	58
Commercial pledge	19 878	32	12 592	37
Deposits	1 413	2	1	-
Other collateral	5 617	9	360	1
No collateral	13 987	23	1 418	4
<b>Total</b>	<b>62 154</b>	<b>100</b>	<b>34 406</b>	<b>100</b>

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

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**Credit quality of individuals loan portfolio**

The following table provides the analysis of loans to individuals portfolio, net of impairment, by types of collateral as at 30 June 2010:

Group:

	30 June 2010	% of loan portfolio	31 Dec 2009	% of loan portfolio
Real estate	44 007	88	51 817	91
Motor vehicles	2 056	4	2 628	5
Other collateral	1 887	4	401	1
No collateral	1 933	4	1 884	3
<b>Total</b>	<b>49 883</b>	<b>100</b>	<b>56 730</b>	<b>100</b>

**Bank**

	30 June 2010	% of loan portfolio	31 Dec 2009	% of loan portfolio
Real estate	44 008	95	50 308	96
Other collateral	372	1	391	1
No collateral	1 928	4	1 866	3
<b>Total</b>	<b>46 308</b>	<b>100</b>	<b>52 565</b>	<b>100</b>

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

**Commercial loan allocation, depending on delay of payments**
**Group**

LVL'000 Loans	Loans with no delayed payments	Of which past due by the following terms						More than 360 days
		Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days		
<b>30 June 2010</b>								
Gross loans	56 028	36 721	4 716	1 378	885	2 896	2 693	6 739
Impairment allowance	(6 173)	(540)	(53)	(14)	(122)	(308)	(1 290)	(3 846)
Net carrying value	49 855	36 181	4 663	1 364	763	2 588	1 403	2 893
<b>31 December 2009</b>								
Gross loans	32 248	18 310	2 610	858	1 402	2 038	3 611	3 419
Impairment allowance	(6 120)	(954)	(27)	(36)	(166)	(1 856)	(1 238)	(1 843)
Net carrying value	26 128	17 356	2 583	822	1 236	182	2 373	1 576

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

<b>Bank</b>		<b>Of which past due by the following terms</b>						
<b>LVL'000</b>	<b>Loans with no delayed payments</b>	<b>Less than 30 days</b>	<b>30-60 days</b>	<b>61-90 days</b>	<b>91-180 days</b>	<b>181-360 days</b>	<b>More than 360 days</b>	
<b>Loans</b>								
<b>30 June 2010</b>								
Gross loans	67 723	54 382	3 370	405	682	1 793	2 363	4 728
Impairment allowance	(5 569)	(1 719)	(51)	(9)	(122)	(294)	(1 061)	(2 313)
Net carrying value	62 154	52 663	3 319	396	560	1 499	1 302	2 415
<b>31 December 2009</b>								
Gross loans	39 947	31 002	749	564	1 198	982	2 599	2 853
Impairment allowance	(5 541)	(2 245)	(11)	(37)	(166)	(367)	(1 019)	(1 696)
Net carrying value	34 406	28 757	738	527	1 032	615	1 580	1 157

*Individual loan allocation, depending on delay of payments*

<b>Group</b>		<b>Of which past due by the following terms</b>						
<b>LVL'000</b>	<b>Loans with no delayed payments</b>	<b>Less than 30 days</b>	<b>30-60 days</b>	<b>61-90 days</b>	<b>91-180 days</b>	<b>181-360 days</b>	<b>More than 360 days</b>	
<b>Loans</b>								
<b>30 June 2010</b>								
Gross loans	63 693	23 689	4 131	1 341	698	2 490	5 663	25 681
Impairment allowance	(13 810)	(1 930)	(202)	(34)	(35)	(428)	(2 146)	(9 035)
Net carrying amount	49 883	21 759	3 929	1 307	663	2 062	3 517	16 646
<b>31 December 2009</b>								
Gross loans	67 806	22 785	5 040	1 728	1 166	4 453	20 997	11 637
Impairment allowance	(11 076)	(185)	(34)	(59)	(220)	(1 155)	(5 807)	(3 616)
Net carrying amount	56 730	22 600	5 006	1 669	946	3 298	15 190	8 021

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

Bank LVL'000 Loans		Loans with no delayed payments	Of which past due by the following terms					More than 360 days
			Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	
<b>30 June 2010</b>								
Gross loans	59 279	20 407	3 683	1 137	620	2 401	5 490	25 541
Impairment allowance	(12 971)	(1 097)	(202)	(34)	(35)	(412)	(2 020)	(9 171)
Net carrying amount	46 308	19 310	3 481	1 103	585	1 989	3 470	16 370
<b>31 December 2009</b>								
Gross loans	63 216	21 506	3 697	2 398	1 060	4 275	19 154	11 126
Impairment allowance	(10 651)	(161)	(27)	(62)	(218)	(1 120)	(5 639)	(3 424)
Net carrying amount	52 565	21 345	3 670	2 336	842	3 155	13 515	7 702

**Impaired loans**

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
Impaired loans gross	72 599	78 051	79 125	87 644
Impairment allowance	(19 983)	(18 540)	(17 196)	(16 192)
Net Loans and receivables from customers	<u>52 616</u>	<u>59 511</u>	<u>61 929</u>	<u>71 452</u>

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

When reviewing the loans the Bank sets the following categories for individual loans to assess their credit risk:

**Bank**

	Gross 30 June 2010 '000 LVL	Impairment allowance	Gross 31 Dec 2009 '000 LVL	Impairment allowance
Standard	10 278	-	6 315	-
Watch	28 409	1 258	45 718	4 478
Substandard	9 969	3 748	7 186	3 046
Doubtful	6 993	4 476	3 441	2 571
Lost	3 630	3 489	556	556
<b>Total</b>	<b>59 279</b>	<b>12 971</b>	<b>63 216</b>	<b>10 651</b>

**Group**

	Gross 30 June 2010 '000 LVL	Impairment allowance	Gross 31 Dec 2009 '000 LVL	Impairment allowance
Standard	11 965	-	8 622	-
Watch	30 762	2 072	46 084	4 563
Substandard	9 969	3 747	7 334	3 095
Doubtful	7 367	4 502	3 490	2 494
Lost	3 630	3 489	2 276	924
<b>Total</b>	<b>63 693</b>	<b>13 810</b>	<b>67 806</b>	<b>11 076</b>

When reviewing the loans the Bank sets the following categories for commercial loans to assess their credit risk:

**Bank**

	Gross 30 June 2010 '000 LVL	Impairment allowance	Gross 31 Dec 2009 '000 LVL	Impairment allowance
Standard	38 673	-	10 580	-
Watch	23 399	1 804	24 074	2 227
Substandard	2 670	874	3 105	1 352
Doubtful	432	307	793	567
Lost	2 549	2 584	1 395	1 395
<b>Total</b>	<b>67 723</b>	<b>5 569</b>	<b>39 947</b>	<b>5 541</b>

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**Group**

	Gross 30 June 2010 '000 LVL	Impairment allowance	Gross 31 Dec 2009 '000 LVL	Impairment allowance
Standard	34 272	-	14 023	-
Watch	12 692	560	12 334	2 326
Substandard	2 670	875	3 214	1 387
Doubtful	3 845	2 154	865	608
Lost	2 549	2 584	1 812	1 799
<b>Total</b>	<b>56 028</b>	<b>6 173</b>	<b>32 248</b>	<b>6 120</b>

**Collateral assumed**

As at 30 June 2010, the Group and the Bank are in the legal process to sell collateral assumed as security for loans included under Other assets as follows:

LVL'000	30 June 2010 '000 LVL	31 Dec 2009 '000 LVL
Vehicles	651	2 137
<b>Total</b>	<b>651</b>	<b>2 137</b>

**(a) Significant credit exposures**

As at 30 June 2010 and 31 December 2009 the Bank had 3 and 1 borrower or group of related borrowers, respectively, whose loan balances exceeded 10% of the Bank's equity. The gross value of these loans as of 30 June 2010 and 31 December 2009 was LVL 15 622 thousand and LVL 1 883 thousand, respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 30 June 2010 and 31 December 2009 the Bank was in compliance with this requirement.

**16 Available-for-sale assets**

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>Equity investments</b>				
Corporate shares	28	28	70	28
<b>Total</b>	<b>28</b>	<b>28</b>	<b>70</b>	<b>28</b>

**17 Held-to-maturity assets**

Group/ Bank	30 June 2010 '000 LVL	31 Dec 2009 '000 LVL
Debt securities of credit institutions	4 481	-
<b>Total held-to-maturity assets</b>	<b>4 481</b>	<b>-</b>

Debt securities comprises bonds issued by PrivatBank Ukraine (shareholder of the Bank) acquired in May 2010 maturing on 6 February 2012.

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**18 Investment property**
**Acquisitions**

During the six months ended 30 June 2010, the Group acquired 128 real estate properties (formerly collaterals), primarily residential properties, by taking them over from borrowers at fair value and subsequently measured them at fair value. The total balances of such repossessed properties amounts to LVL 4 056 thousand as at 30 June 2010 (31 Dec 2009: 34 real estate properties in amount of LVL 551 thousand).

**Advance payments**

During the six months ended 30 June 2010 the Group paid advances in the amount of LVL 2 068 thousand (31 Dec 2009: LVL 0) for acquiring real estate properties.

**19 Deposits and balances from banks**

	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
	<b>30 June 2010</b>	<b>30 June 2010</b>	<b>31 Dec 2009</b>	<b>31 Dec 2009</b>
	<b>'000 LVL</b>	<b>'000 LVL</b>	<b>'000 LVL</b>	<b>'000 LVL</b>
Vostro accounts	1 073	1 073	377	377
Term deposits	7 753	7 753	15 700	15 700
<b>Total</b>	<b>8 826</b>	<b>8 826</b>	<b>16 077</b>	<b>16 077</b>

**Concentration of deposits and balances from banks and other financial institutions**

As at 30 June 2010 and 31 December 2009 the Group and Bank had 1 and 1 bank and financial institution, respectively, whose balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 30 June 2010 and 31 December 2009 were LVL 7 028 thousand and LVL 14 063 thousand, respectively.

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

**20 Current accounts and deposits from customers**

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>Demand deposits</b>				
Residents:				
State companies	45	45	100	100
Private enterprises	69	5 094	1 782	1 786
Individuals	18 576	18 576	7 299	7 299
Other	4	96	35	170
Non-residents:				
Residents of OECD countries	32 602	32 602	20 583	20 583
Residents of non-OECD countries	20 339	20 339	17 996	17 996
<b>Total demand deposits</b>	<b>71 635</b>	<b>76 752</b>	<b>47 795</b>	<b>47 934</b>
<b>Term deposits</b>				
Residents:				
State companies	104	104	167	167
Individuals	82 386	82 386	53 112	53 112
Private enterprises	8 295	3 327	1 646	1 646
Other	37	37	33	33
Non-residents:				
Residents of OECD countries	10 235	10 235	16 870	16 870
Residents of non-OECD countries	13 025	13 025	14 373	14 373
<b>Total term deposits</b>	<b>114 082</b>	<b>109 114</b>	<b>86 201</b>	<b>86 201</b>
<b>Total current accounts and deposits from customers</b>	<b>185 717</b>	<b>185 866</b>	<b>133 996</b>	<b>134 135</b>
<b>The maturity structure of customer deposits as per agreement terms was as follows:</b>				
	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
Demand deposits	71 635	76 752	47 795	47 934
Term deposits:				
up to 3 months	34 377	29 409	48 047	48 047
3 to 6 months	45 089	45 089	11 079	11 079
6 months to one year	30 239	30 239	19 870	19 870
more than one year	4 377	4 377	7 205	7 205
<b>Total demand and term deposits</b>	<b>185 717</b>	<b>185 866</b>	<b>133 996</b>	<b>134 135</b>

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

### (a) Blocked accounts

As of 30 June 2010 and 30 June 2009, the Group and Bank maintained customer deposit balances of LVL 2 073 thousand and LVL 1 703 thousand which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

### (b) Concentrations of current accounts and customer deposits

As of 30 June 2010 and 30 June 2009, the Group and Bank had no customers, whose balances exceeded 10% of total customer accounts.

## 21 Mortgage bonds

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
Mortgage bonds issued	4 925	4 925	11 272	11 272
<b>Total</b>	<b>4 925</b>	<b>4 925</b>	<b>11 272</b>	<b>11 272</b>

As at 30 June 2010, the Group and Bank had LVL 4 925 thousand (31 December 2009: LVL 11 272 thousand) of bonds issued outstanding.

On 15 December 2006, the Bank issued 5-year mortgage bonds for EUR 7 000 thousand (LVL 4 920). The coupon rate of these bonds is 6M EUR LIBOR + 1.6%. As at 30 June 2010, the coupon rate of these bonds was 2.625% (2009: 2.625 %)

On 15 May 2010, the Bank repaid 3-year mortgage bonds amounting to EUR 9,000 thousand.

The debt securities are quoted on the Nasdaq OMX Rīga.

ISIN	Amount	Nominal value	Registered volume	Coupon rate on issue	Maturity date	Amount in circulation	30 June 2010 Carrying value	31 December 2009 Carrying value
LV0000800381	70,000	100	7 000 EUR	5.25%	15.12.2011	4 920	4 920	4 920
LV0000800464	90,000	100	9 000 EUR	2.625%	15.05.2010	6 325	-	6 325
Accrued expense							5	27
<b>Total</b>							<b>4 925</b>	<b>11 272</b>

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

### 22 Subordinated borrowings

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
Subordinated borrowings	7 449	7 449	6 357	6 357
<b>Total</b>	<b>7 449</b>	<b>7 449</b>	<b>6 357</b>	<b>6 357</b>

As at 30 June 2010 subordinated borrowings comprise loans received from Unimain Holdings Limited (related party) in the amount of USD 13 000 thousand maturing on 18 March 2016, which carry an annual interest rate of 6%. The subordinated borrowings will, in the event of the winding-up of the Bank, be subordinated to the claims of depositors and all other creditors of the Bank.

### 23 Other liabilities

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
Accrued expenses	496	496	423	422
Amounts in clearing	3 911	3 911	2 162	2 162
Brokerage security deposits	1 001	1 001	600	600
Other	322	175	477	127
<b>Total</b>	<b>5 730</b>	<b>5 583</b>	<b>3 662</b>	<b>3 311</b>

### 24 Share capital

#### (a) Issued capital and share premium

The authorised and issued share capital comprises 40 470 000 ordinary shares (2009: 20 235 000). All shares have a par value of LVL 1

In March 2010, the general meeting of shareholders decided on the issuance of additional 20 235 000 ordinary shares at a price of LVL 1 that equals their par value. All shares are fully paid up.

The holders of ordinary shares are entitled to dividends and liquidation quota and voting rights at the shareholders meeting. On 12 May 2010 Unimain Holdings Limited signed a trust agreement with CJS Commercial Bank "PrivatBank" (Ukraine) for trust management of AS PrivatBank shares belonging to Unimain Holdings Limited and transfer of voting rights.

The immediate parent of the Bank is CJS Commercial Bank "PrivatBank" (Ukraine). The ultimate shareholders of the Bank are Bogolyubov Gennady Borisovich holding 48.997% shares of the immediate parent of the Bank, and Kolomoysky Igor Valeriyevich holding 49.154% shares of the immediate parent of the Bank.

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

Shareholders are as follows:

Shareholder	Country	30 June 2010		31 December 2009	
		Shares LVL	Holding, %	Shares LVL	Holding, %
Closed Joint Stock Commercial Bank "PrivatBank"	Ukraine	30 359 520	75.0173	10 124 646	50.0353
Unimain Holdings Limited	Cyprus	9 584 617	23.6833	9 584 617	47.3665
M. Esterovs	USA	524 724	1.2966	524 724	2.5932
J. Skvorcova	Latvia	300	0.0007	300	0.0015
A. Laško	Latvia	153	0.0004	153	0.0008
V. Bīriņ	Latvia	371	0.0009	371	0.0018
O.Trubakov	Ukraine	189	0.0005	63	0.0003
O. Mekekechko	Ukraine	126	0.0003	63	0.0003
R. Pētersons	Latvia	-	-	63	0.0003
		<b>40 470 000</b>	<b>100.00</b>	<b>20 235 000</b>	<b>100.00</b>

## 25 Cash and cash equivalents

Cash and cash equivalents consist of the following

	Group		Bank	
	30 June 2010 '000 LVL	30 June 2010 '000 LVL	30 June 2009 '000 LVL	30 June 2009 '000 LVL
Cash	1 349	1 349	1 118	1 118
Due from Bank of Latvia	43 129	43 129	7 309	7 309
	<b>44 478</b>	<b>44 478</b>	<b>8 427</b>	<b>8 427</b>
Deposits in other credit institutions with maturity less than three months	31 997	31 997	24 195	24 195
Due to other credit institutions with maturity less than three months	(8 057)	(8 057)	(23 359)	(23 359)
<b>Total</b>	<b>68 418</b>	<b>68 418</b>	<b>9 263</b>	<b>9 263</b>

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

### 26 Analysis by segment

The Group's and Bank's primary format for reporting segment information is by business segments.

The Bank is organised into two main business segments:

- Commercial banking – includes corporate and retail banking operations which include deposit taking and commercial lending, settlements and cash operations. Commercial banking services also include trade finance.
- Investment banking and financial markets – includes corporate finance, operations on foreign exchange, debt and equity capital markets, brokerage, securities and precious metals trading.

Segment breakdown of assets and liabilities of the Group and Bank is set out below:

	Group 30 June 2010 '000 LVL	Bank 30 June 2010 '000 LVL	Group 31 Dec 2009 '000 LVL	Bank 31 Dec 2009 '000 LVL
<b>Assets</b>				
Commercial banking	149 139	156 572	99 774	100 359
Investment banking and financial markets	89 146	83 022	80 963	80 963
<b>Total assets</b>	<b>238 285</b>	<b>239 594</b>	<b>180 737</b>	<b>181 322</b>
<b>Liabilities</b>				
Commercial banking	204 272	204 254	155 769	155 457
Investment banking and financial markets	8 826	8 826	16 077	16 077
<b>Total liabilities</b>	<b>213 098</b>	<b>213 080</b>	<b>171 846</b>	<b>171 534</b>

Segment information for the main reportable business segments of the Group for the period ended 30 June 2010 is set below:

#### Group

	Commercial banking	Investment banking and financial markets	Total
External revenue	4 268	3 213	7 481
<b>Total revenue</b>	<b>4 268</b>	<b>3 213</b>	<b>7 481</b>
Impairment losses	(3 110)	-	(3 110)
Interest expense	(4 294)	(658)	(4 952)
Fee and commission expense	(152)	(124)	(276)
General administrative expenses	(3 089)	-	(3 089)
<b>Segment result</b>	<b>(6 377)</b>	<b>2 431</b>	<b>(3 946)</b>
<b>Income tax benefit</b>			7
<b>Net income after taxes</b>			<b>(3 939)</b>

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

Segment information for the main reportable business segments of the Group for the period ended 30 June 2009 is set below:

	<b>Commercial banking</b>	<b>Investment banking and financial markets</b>	<b>Total</b>
External revenue	7 877	933	8 810
<b>Total revenue</b>	<b>7 877</b>	<b>933</b>	<b>8 810</b>
Impairment losses	(7 496)	-	(7 496)
Interest expense	(514)	(2 531)	(3 045)
Fee and commission expense	(118)	(175)	(293)
General administrative expenses	(3 739)	-	(3 739)
<b>Segment result</b>	<b>(3 990)</b>	<b>(1 773)</b>	<b>(5 763)</b>
<b>Income tax expense</b>			<b>(26)</b>
<b>Net income after taxes</b>			<b>(5 789)</b>

Segment information for the main reportable business segments of the Bank for the period ended 30 June 2010 is set below:

**Bank**

	<b>Commercial banking</b>	<b>Investment banking and financial markets</b>	<b>Total</b>
External revenue	4 407	3 227	7 634
<b>Total revenue</b>	<b>4 407</b>	<b>3 227</b>	<b>7 634</b>
Impairment losses	(2 800)	-	(2 800)
Interest expense	(4 438)	(691)	(5 129)
Fee and commission expense	(152)	(124)	(276)
General administrative expenses	(2 945)	-	(2 945)
<b>Segment result</b>	<b>(5 928)</b>	<b>2 412</b>	<b>(3 516)</b>
<b>Income tax benefit</b>			<b>7</b>
<b>Net income after taxes</b>			<b>(3 509)</b>

Segment information for the main reportable business segments of the Bank for the period ended 30 June 2009 is set below:

	<b>Commercial banking</b>	<b>Investment banking and financial markets</b>	<b>Total</b>
External revenue	7 537	933	8 470
<b>Total revenue</b>	<b>7 537</b>	<b>933</b>	<b>8 470</b>
Impairment losses	(6 224)	-	(6 224)
Interest expense	(512)	(2 554)	(3 066)
Fee and commission expense	(109)	(175)	(284)
General administrative expenses	(3 542)	-	(3 542)
<b>Segment result</b>	<b>(2 850)</b>	<b>(1 796)</b>	<b>(4 646)</b>
<b>Income tax expense</b>			<b>-</b>
<b>Net income after taxes</b>			<b>(4 646)</b>

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

### 27 Litigation

In the ordinary course of business, the Group and Bank is subject to legal actions and complaints. Except where already provided for, management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of the future operations of the Group and Bank.

### 28 Related party transactions

#### (a) Control relationships

The Bank's immediate parent is CJS Commercial Bank "PrivatBank" (Ukraine). The party with ultimate control over the Bank is Commercial Bank "PrivatBank" (Ukraine).

#### (b) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation:

	Six month period ended 30 June	
	2010 '000 LVL	2009 '000 LVL
Members of the Board of Directors	37	40
Members of the Council	24	24
	<b>61</b>	<b>64</b>

The above amounts include non-cash benefits in respect of members of the Board of Directors and the Council.

The outstanding balances and average interest rates with members of the Board of Directors and the Council are as follows:

	30 June 2010 '000 LVL	Average Interest Rate	31 Dec 2009 '000 LVL	Average Interest Rate
<b>Balance Sheet</b>				
<b>Assets</b>				
Loans to customers	99	2.39%	184	4.11%
Deposits and current accounts	135	7.69%	183	8.50%

Amounts included in the income statement in relation to transactions with members of the Board of Directors and the Council are as follows:

	Six months ended 30 June	
	2010 '000 LVL	2009 '000 LVL
<b>Income statement</b>		
Interest income	1	5
Interest expense	(2)	1

**NOTES TO THE CONDENSED CONSOLIDATED AND BANK INTERIM FINANCIAL STATEMENTS**
**(c) Transactions with other related parties**

The outstanding balances and the related average interest rates as of 30 June 2010 and related income statement amounts of transactions for the period ended 30 June 2010 with other related parties are as follows. Other related parties includes TaoPrivatBank, Georgia; PrivatBank, Cyprus And Unimain Holding Ltd.

**Group**

	Parent company		Other related parties				Total			
	2010	2009	2010	2009	2010	2009	2010	2009		
<b>Statement of financial position as at 30 June 2010 and 31 December 2009</b>										
	'000 LVL		Average contractual interest rate		'000 LVL		Average contractual interest rate	'000 LVL		
<b>Assets</b>										
Balance on correspondent account	138	119	-	-	-	980	-	-	138	1 099
Term deposits	7	5	2.69	2.69	809	341	10.91	10.9	816	346
Funds in settlement (VISA, PrivatMoney)	137	104	-	-	-	-	-	-	137	104
Held-to-maturity bonds	4 481	-	8	-	-	-	-	-	4481	-
<b>Liabilities</b>										
Due to PrivatBank (Ukraine) – Ioro account	175	110	-	-	137	22	-	-	312	132
Deposits	-	-	-	-	-	1 406	-	3	-	1406
PrivatBank overnight	-	-	-	-	-	-	-	-	-	-
Subordinated borrowings	-	-	-	-	7 449	6 357	6	6	7 449	6 357
Funds in settlement (PrivatMoney)	-	51	-	-	-	-	-	-	-	51
Derivatives	-	-	-	-	-	-	-	-	-	-
Open currency deals	-	99	-	-	-	2	-	-	-	101
<b>Income statement for the six month period ended 30 June</b>										
Interest income	53	1	-	-	-	-	-	-	53	1
Interest expense	206	181	-	-	106	1	-	-	312	182
Fee and commission income	44	60	-	-	-	-	-	-	44	60
Fee and commission expense	20	21	-	-	-	-	-	-	20	21

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

### Bank

	Parent company				Other related parties 2010		Other related parties 2009		Subsidiaries				Total	
	2010	2009	2010	2009					2010	2009	2010	2009	2010	2009
Statement of financial position as at 30 June 2010 and 31 December 2009	'000 LVL		Average contractual interest Rate		'000 LVL	Average contractual interest Rate	'000 LVL	Average contractual interest Rate	'000 LVL		Average contractual interest Rate		'000 LVL	
<b>Assets</b>														
Balance on correspondent account	138	119	-	-	-	-	980	-	-	-	-	-	138	1 099
Term deposits	7	5	2.69	2.69	809	10.91	341	10.9	-	-	-	-	816	346
Funds in settlement (VISA, PrivatMoney)	137	104	-	-	-	-	-	-	-	-	-	-	137	104
Held-to-maturity bonds	4 481	-	8	-	-	-	-	-	-	-	-	-	4 481	-
Derivatives	-	-	-	-	-	-	-	-	5	-	-	-	5	-
Loan to SIA "PrivatLizings"	-	-	-	-	-	-	-	-	11 733	12 420	9.74	3.82	11 733	12 420
Loan to SIA "PrivatConsulting"	-	-	-	-	-	-	-	-	-	10	-	5.83	-	10
Loan to SIA "Amber Real"	-	-	-	-	-	-	-	-	13 764	3 174	3.29	4.2	13 764	3 174
<b>Liabilities</b>														
Due to PrivatBank – loro account	175	110	-	-	137	-	22	-	-	-	-	-	312	132
Deposits	-	-	-	-	-	-	1 406	3	-	-	-	-	-	1 406
PrivatBank overnight	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated borrowings	-	-	-	-	7 449	6	6 357	6	-	-	-	-	7 449	6 357
Funds in settlement (PrivatMoney)	-	51	-	-	-	-	-	-	-	-	-	-	-	51
Derivatives	-	-	-	-	-	-	-	-	5	-	-	-	-	-
Unfinished currency deals	-	99	-	-	-	-	2	-	-	-	-	-	-	101
Due to SIA "PrivatLizings"	-	-	-	-	-	-	-	-	92	135	-	-	92	135
Due to SIA "PrivatConsulting"	-	-	-	-	-	-	-	-	55	-	-	-	55	-
Due to SIA "Amber Real"	-	-	-	-	-	-	-	-	-	4	-	-	-	4
<b>Income statement for the six month period ended 30 June</b>														
Interest income	53	1	-	-	-	-	-	-	401	417	-	-	454	418
Interest expense	206	181	-	-	106	-	1	-	144	23	-	-	456	205
Fee and commission income	44	60	-	-	-	-	-	-	-	-	-	-	44	60
Fee and commission expense	20	21	-	-	-	-	-	-	-	-	-	-	20	21
Other income	-	-	-	-	-	-	-	-	1	-	-	-	1	-
General and administrative expenses	-	-	-	-	-	-	-	-	5	9	-	-	5	9