MORTGAGE AND LAND BANK OF LATVIA

Interim Condensed Consolidated and Bank Financial Statements for the 6 months period ended 30 June 2010 in accordance with International Accounting Standard 34 as adopted by European Union

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REPORT OF THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS

In the first six months of 2010, the economy of Latvia still experienced the consequences of the rapid recession – low internal consumption, deflation, shrinking of population income level, but the situation has stabilized, the industrial production export has grown, the unemployment level has lowered at the end of the second quarter, and the national budget revenue plan is being successfully implemented. The external trade of Latvia has retained a positive balance in the first half-year of 2010. These signals enable more optimistic looks onto the development of the national economy of Latvia in the second half of the year.

In 6 months of 2010, the assets of Latvian commercial have decreased by 2%, reaching 21.3 billion lats at the end of June, the volume of loan portfolio decreased by 3%, the capital and reserves of the banks decreased by 1%, while deposits increased by 7%. The unaudited losses of banks in the respective period of time reached 250 million lats, mostly due to accumulation of provisions for non-performing loans.

The volume of gross assets of Hipoteku banka decreased by 28.9 million lats or 3%, reaching 937.8 million lats in the 1st half of the year 2010. Within the first 6 months of 2010, the gross loan portfolio of Hipoteku banka has decreased by 7%, reaching 663 million lats, constituted by the portfolio of development loans of 264 million lats (40% of the portfolio) and the portfolio of commercial loans of 399 million lats (60% of the portfolio). The volume of deposits in the respective timeframe has grown by 1% reaching 329 million lats. In the first six months, the Bank made provisions of 41 million lats for doubtful assets, as a result of which, the audited losses were 39.3 million lats. The ratio of provisions built by the Bank and the loan portfolio was 14.3% on 30 June of this year.

In the first half of the year, the Bank made a repayment of 49.1 million lats of syndicated and other loans and has accrued funds for repayments scheduled for the second half of the year.

The equity capital of the Bank was increased by 70.28 million lats in April 2010. The equity capital was increased by means of the state taking over the liabilities of Hipoteku banka towards the Nordic Investment Bank and investing the respective amount into the equity capital of the bank. The funds of the Nordic Investment Bank are being used for lending under the Programme for Improvement of the Competitiveness of Businesses. The capital adequacy ratio was 18.6% at the end of June, which considerably exceeds the statutory minimum of 8% as directed by the Law on Credit Institutions.

The first half of 2010 brought a number of changes to the composition of the Board and the Council of Hipoteku banka. On March 1, 2010, a new Council of Hipoteku banka was elected to a period of three years, the composition of it being as follows: Ms. Baiba Bāne, Mr. Dāvids Tauriņš and Mr. Jānis Pone. Mr. Dāvids Tauriņš voluntarily left the position in the Council on March 23, and Mr. Mārtiņš Bičevskis, the shareholder of Hipoteku banka, the State Secretary of the Ministry of Finance, appointed Mr. Andžs Ūbelis instead of him on the 8th of April. Thus, the Council of Hipoteku banka is currently operating as follows: the Head of the Council – Ms. Baiba Bāne, the Deputy – Mr. Andžs Ūbelis, and member of the Council Mr. Jānis Pone.

The following persons got elected to the Board of Hipoteku banka by the March 12 Council decision: Ms. Baiba Brigmane and Mr. Gints Āboltiņš. Thus, the current staff of the Hipoteku banka Board is the following: the Chairman of the Board Mr. Rolands Paņko, the Deputy Chairman of the Board Mr. Jēkabs Krieviņš and Members of the Board Ms. Baiba Brigmane, Mr. Jānis Bērziņš and Mr. Gints Āboltiņš.

On 3 December 2009, the concept "Transformation of the "State Joint-stock company "Mortgage and Land bank of Latvia" into a Development bank" was accepted by the Cabinet of Ministers decree No.820. The goal of the concept was to select optimum options for the transformation of the Mortgage bank into a development bank, by reducing the transactions of a commercial bank and channelling the bank's operations into directions currently crucial for the national economy.

In line with the Cabinet of Ministers decision, the concept model prescribing the formation of the development bank on the basis of the Mortgage bank and gradual phasing out of the commercial banking functions by 31 December 2013 has been chosen. According to the selected model, the bank continues the implementation of the existing state aid programmes, and develops new promotional programmes in cooperation with line ministries which will be started according to the decision of the Government. The Mortgage bank gradually reduces the volume of the bank's commercial loan portfolio. In the area of commercial activity, the bank has already stopped lending to new clients and grants commercial loans only to the existing clients, according to the present loan volume, and for restructuring of the existing loans.

In the 1st half of 2010, on behalf of the government, Hipoteku banka proceeded with implementation of various development programmes providing support to certain groups of entrepreneurs and population:

REPORT OF THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS (continued)

- Programme for Improvement of Competitiveness of Businesses;
- Microlending Programme;
- Start programme "Support to Start-ups on Self-employment and Commercial Activity";
- SME development loan programme "Loans to Micro, Small and Medium Businesses and Co-operative Unions Providing Agricultural Services".

Moreover, in the 2nd quarter, Hipoteku banka launched implementation of a new programme – working capital loans to farmers.

Programme for Improvement of the Competitiveness of Businesses

Hipoteku banka received 100 million euro (70 million lats) loan from the Nordic investment bank (NIB) for funding of the programme in 2009, and a Loan fund was established, consisting of public funding of 61.6 million euro (43.3 million lats) and the funding of Hipoteku banka of 21.6 million euro (15.2 million lats). Loans of 126.5 million lats were granted under the Programme for Improvement of the Competitiveness of Businesses by the end of June 2010, including the funds of the Loan fund – 41.26 million lats.

Microlending programme

The total amount of the programme funding is 564.8 thousand lats, and, by the end of June 2010, Hipoteku banka has granted microloans of the total amount of 602 thousand lats. It means that the bank continues lending from the amounts repaid by the borrowers.

Start programme – "Support to Self-employment and Business Start-ups"

By the end of June 2010, 806 applicants had signed up for consultations and training, 374 programme participants had completed the training, the bank had received 278 business plans, 236 of which were considered by the lending committee and financial aid of the total loan amount 2 mln LVL granted to 130 projects.

SME growth lending programme

In February 2010, the Bank started the SME growth lending programme – Loan Programme for Development of Micro, Small and Medium-sized Enterprises and Co-operative Unions Providing Agricultural Services. The goal of the programme is facilitate access of Latvian-registered businesses to funding, to revive and foster the development of Latvian national economy. Hipoteku banka has concluded a 100 million euro loan agreement with the European Investment Bank for implementation of the programme. 56 loans for the total of 3.65 million lats had been granted under the SME growth lending programme by the end of June.

Working capital loans to farmers

In May 2010, Hipoteku banka started granted of working capital loans to farmers. The loans are being granted in accordance with the Cabinet of Ministers regulations No.403 of 27 April 2010 "Procedure of granting the state aid to working capital for production of agricultural products" The total volume of the programme is 10 million lats, which shall be received by Hipoteku banka from the State Treasury as loans.

77 loans of a total of 2 million lats had been granted by the end of June under the Working capital lending programme to farmers.

The start of 2010 brought a positive evaluation of the potential of Latvia economic development, also confirmed by the international rating agencies *Standard & Poor's Rating Services* and *Moody's Investors Service Ltd*, raising the future outlook of the credit rating of Latvia from negative to stable. Hipoteku banka is 100% owned by state and its rating is directly linked to the Latvia's sovereign rating. With the upgrading of sovereign internal and foreign currency rating Baa3 future outlook, *Moody's Investors Service Ltd* notched up the future outlook of the Hipoteku banka's long-term foreign currency commitments rating Baa3 from negative to stable. Hipoteku banka is assigned the following ratings:

- long-term foreign currency deposits – Baa3,
- short-term foreign currency deposits – *P3*,
- financial strength rating – *E+*,
- rating of mortgage bonds – *Baa2*,

which are investment grade ratings.

At the end of the first half-year of 2010, Hipoteku banka provided service to its clients in 27 branches and 7 sub-branches, located in Riga as well as in other cities of Latvia.

Baiba Bāne
Chairman of the Council

Rolands Paņko
Chairman of the Board

Riga, 20 August 2010

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

As at 30 June 2010 and as at the date of signing the accounts:

Supervisory Council (at 30 June 2010)

Baiba Bāne	Chairman of the Council
Andžs Ūbelis	Deputy Chairman of the Council
Jānis Pone	Member of the Council

During the reporting period Ms. Baiba Brigmane and Mr. Dāvids Tauriņš resigned from the Council and Mr. Jānis Pone and Andžs Ūbelis were appointed as members of the Council.

Board of Directors (at 30 June 2010)

Rolands Paņko	Chairman of the Board
Jēkabs Krieviņš	Deputy Chairman of the Board
Jānis Bērziņš	Member of the Board
Baiba Brigmane	Member of the Board
Gints Āboltiņš	Member of the Board

During the reporting period Andris Riekstiņš resigned from the Board and Baiba Brigmane and Gints Āboltiņš as were appointed as members of the Board.

STATEMENT OF RESPONSIBILITY OF THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS

Riga 20 August 2010

The Supervisory Council and the Board of Directors (hereinafter - the Management) of the Bank are responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 8 to 34 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 30 June 2010 and the results of its operations and cash flows for the 6 months period ended 30 June 2010.

The financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the EU, on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments 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.

On behalf of the management,

Baiba Bāne	Rolands Paņko
Chairman of the Council	Chairman of the Board

INDEPENDENT AUDITORS' REPORT

To the shareholder of VAS Latvijas Hipotēku un Zemes banka

Report on the Financial Statements

We have audited the interim condensed consolidated financial statements of VAS Latvijas Hipotēku un Zemes banka and its subsidiaries (hereinafter – the Group) and the accompanying interim condensed financial statements of VAS Latvijas Hipotēku un Zemes banka (hereinafter - the Bank), which are set out on pages 8 through 34 and which comprise the financial position as at 30 June 2010, the statement of comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2010, and explanatory notes.

Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these interim condensed financial statements 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 statements are free from material misstatement.

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

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

Opinion

In our opinion, the interim condensed financial statements of the Group and the Bank have been prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the EU.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the board
Latvian Sworn Auditor
Certificate No. 124

Riga, 20 August 2010

INCOME STATEMENT (all amounts in thousands of Euro)

	Notes	6 months to 30 June 2010		6 months to 30 June 2009	
		Group	**Bank**	**Group**	**Bank**
Interest income		28,706	27,947	42,473	40,585
Interest expense		(22,450)	(22,463)	(24,025)	(23,503)
Net interest income		**6,256**	**5,484**	**18,448**	**17,082**
Fee and commission income		3,008	2,691	2,914	2,760
Fee and commission expense		(667)	(669)	(689)	(641)
Net fee and commission income		**2,341**	**2,022**	**2,225**	**2,119**
Net trading income		1,754	1,705	4,590	4,643
Other operating income		6,207	4,990	5,346	3,796
		16,558	**14,201**	**30,609**	**27,640**
Staff costs		(6,367)	(5,680)	(7,016)	(6,292)
Administrative expenses		(5,112)	(4,509)	(5,384)	(4,757)
Depreciation and amortisation		(1,382)	(1,261)	(1,487)	(1,336)
Provision for impairment losses	4	(59,618)	(58,634)	(31,433)	(29,286)
(Loss) / profit before income tax		**(55,921)**	**(55,883)**	**(14,711)**	**(14,031)**
Income tax expense		(30)	-	1,428	1,431
Net (loss) / profit for the period		**(55,951)**	**(55,883)**	**(13,283)**	**(12,600)**
Attributable to:					
Equity holders of the Bank		(55,960)	-	(13,290)	-
Minority interest					

Statement of Comprehensive Income (all amounts in thousands of Euro)

	6 months to 30 June 2010		6 months to 30 June 2009	
	Group	**Bank**	**Group**	**Bank**
(Loss) / Profit for the period	**(55,951)**	**(55,883)**	**(13,283)**	**(12,600)**
Net loss from investment securities available-for-sale	3,152	3,512	(535)	(535)
Total comprehensive (loss) / profit for the period	**(52,799)**	**(52,371)**	**(13,818)**	**(13,135)**

The notes on pages 13 to 34 are an integral part of these financial statements.

These financial statements on pages 8 to 34 have been accepted by the Board of Directors on 12 August 2010 and accepted by the Supervisory Council on 20 August 2010 and are signed by:

Baiba Bāne
Chairman of the Council

Rolands Paņko
Chairman of the Board

STATEMENT OF FINANCIAL POSITION
(all amounts in thousands of Euro)

	Notes	30/06/10		31/12/09	
Assets		**Group**	**Bank**	**Group**	**Bank**
Cash and balances with Central Bank		174,864	174,864	136,591	136,591
Due from credit institutions		42,712	42,534	50,385	50,193
Derivative financial instruments		852	852	2,780	2,780
Trading securities	5	2,910	2,822	7,220	6,999
Investment securities – available for sale	5	91,674	91,674	70,990	70,990
Investment securities – held to maturity	5	45,650	45,650	61,161	61,161
Loans to customers	6	793,546	808,042	900,224	909,928
Deferred expenses and accrued income		1,488	1,279	942	757
Investment properties		1,659	1,659	1,659	1,659
Property and equipment		9,845	9,015	10,723	9,812
Intangible assets		2,877	2,195	3,136	2,449
Investments in subsidiaries and associated undertakings	7	398	2,170	398	2,174
Current income tax assets		-	-	-	-
Other assets	8	18,046	3,249	12,658	2,654
Total assets		**1,186,521**	**1,186,005**	**1,258,867**	**1,258,147**
Liabilities					
Derivative financial instruments		192	192	221	221
Due to credit institutions	9	419,739	419,739	539,997	539,997
Due to customers	10	467,029	468,000	464,851	464,939
Issued debt securities	11	51,138	51,467	53,257	54,423
Deferred income and accrued expenses		6,020	4,923	5,687	4,804
Current income tax liabilities		21	-	61	-
Deferred tax liabilities		48	-	38	-
Other liabilities		39,366	38,834	38,986	38,182
Subordinated liabilities		44,236	44,235	44,236	44,236
Total liabilities		**1,027,789**	**1,027,390**	**1,147,334**	**1,146,802**
Shareholder's equity					
Share capital	12	272,624	272,624	172,624	172,624
Reserve capital		3,591	2,935	3,591	2,935
Minority interest		64	-	57	-
Revaluation deficit on available for sale investments		(1,165)	(1,165)	(4,317)	(4,317)
Retained earnings		(116,382)	(115,779)	(60,422)	(59,897)
Total shareholder's equity		**158,732**	**158,615**	**111,533**	**111,345**
Total liabilities and shareholder's equity		**1,186,521**	**1,186,005**	**1,258,867**	**1,258,147**

The notes on pages 13 to 34 are an integral part of these financial statements.

These financial statements on pages 8 to 34 have been accepted by the Board of Directors on 12 August 2010 and accepted by the Supervisory Council on 20 August 2010 and are signed by:

Baiba Bāne
Chairman of the Council

Rolands Paņko
Chairman of the Board

CONSOLIDATED STATEMENT OF CHANGES IN THE GROUP'S EQUITY
(all amounts in thousands of Euro)

	Attributable to equity holders					
	Share Capital	**Reserve capital**	**Revaluation deficit on available for sale investments**	**Retained earnings**	**Minority interest**	**Total equity**
Balance as at 31 December 2008	**69,028**	**3,591**	**(5,068)**	**18,386**	**41**	**85,978**
Loss for the period	-	-	-	(13,290)	7	**(13,283)**
Other comprehensive expenses	-	-	(535)	-	-	**(535)**
Total comprehensive (loss) / profit for the period	**-**	**-**	**(535)**	**(13,290)**	**7**	**(13,818)**
Shareholders cash contribution	42,000	-	-	-	**-**	**42,000**
Distribution of profit – payment for use of state capital	-	-	-	(859)	-	**(859)**
Balance as at 30 June 2009	**111,028**	**3,591**	**(5,603)**	**4,237**	**48**	**113,301**
Balance as at 31 December 2009	**172,624**	**3,591**	**(4,317)**	**(60,422)**	**57**	**111,533**
Loss for the period	-	-	-	(55,960)	7	**(55,953)**
Other comprehensive income	-	-	3,152	-	-	**3,152**
Total comprehensive (loss) / profit for the period	**-**	**-**	**3,152**	**(55,960)**	**7**	**(52,801)**
Shareholders cash contribution	100,000	-	-	-	**-**	**100,000**
Balance as at 30 June 2010	**272,624**	**3,591**	**(1,165)**	**(116,382)**	**64**	**158,732**

The notes on pages 13 to 34 are an integral part of these financial statements.

STATEMENT OF CHANGES IN THE BANK'S SHAREHOLDER'S EQUITY
(all amounts in thousands of Euro)

	Share Capital	Reserve capital	Revaluation deficit on available for sale investments	Retained earnings	Total equity
Balance as at 31 December 2008	**69,028**	**2,935**	**(5,068)**	**18,384**	**85,279**
Loss for the period	-	-	-	(12,600)	**(12,600)**
Other comprehensive expenses	-	-	(535)	-	**(535)**
Total comprehensive (loss) / profit for the period	**-**	**-**	**(535)**	**(12,600)**	**(13,135)**
Shareholders cash contribution	42,000	-	-	-	**42,000**
Distribution of profit – payment for use of state capital	-	-	-	(859)	**(859)**
Balance as at 30 June 2009	**111,028**	**2,935**	**(5,603)**	**4,925**	**113,285**
Balance as at 31 December 2009	**172,624**	**2,935**	**(4,317)**	**(59,897)**	**111,345**
Loss for the period	-	-	-	(55,882)	**(55,882)**
Other comprehensive income	-	-	3,152	-	**3,152**
Total comprehensive (loss) / profit for the period	**-**	**-**	**3,152**	**(55,882)**	**(52,730)**
Shareholders cash contribution	100,000	-	-	-	**100,000**
Balance as at 30 June 2010	**272,624**	**2,935**	**(1,165)**	**(115,779)**	**158,615**

The notes on pages 13 to 34 are an integral part of these financial statements.

STATEMENT OF CASH FLOW
(all amounts in thousands of Euro)

	6 months to 30 June 2010		6 months to 30 June 2009	
	Group	**Bank**	**Group**	**Bank**
Cash flows from operating activities				
(Loss) before taxation	(55,922)	(55,882)	(14,711)	(14,031)
Depreciation and amortisation	1,382	1,261	1,487	1,336
Increase in provision for impairment losses	30,505	30,373	26,561	25,626
(Profit) / loss from sale of property and equipment	(211)	(1)	158	13
Increase in deferred income and accrued expenses	303	120	2,294	2,417
Decrease in deferred expenses and accrued income	(546)	(522)	(238)	(225)
(Increase) / decrease in other assets	(4,437)	970	2,114	3,742
Increase in other liabilities	350	623	60,168	60,287
(Decrease)/ increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**(28,576)**	**(23,058)**	**77,833**	**79,165**
Decrease / (increase) in balances due from credit institutions	4,466	4,466	13,550	13,550
Decrease / (increase) in loans to customers	76,350	71,081	32,530	32,473
Decrease in trading securities	4,310	4,178	682	697
(Decrease) / increase in balances due to credit institutions	(6,299)	(6,299)	11,589	11,862
Increase in balances due to customers	2,178	3,061	(33,487)	(33,382)
Decrease in debt securities issued	(2,119)	(2,957)	(4,276)	(4,276)
Cash and cash equivalents used in operating activities	**50,310**	**50,472**	**98,421**	**100,089**
Corporate income tax paid	**(30)**	**-**	**(3)**	**-**
Cash flows from investing activities				
Purchase of investment securities	(139,496)	(139,496)	(185,982)	(185,982)
Sale of investment securities	138,302	138,302	101,108	101,034
Purchases of property and equipment	(273)	(223)	(993)	(872)
Proceeds from property and equipment disposal	239	14	300	4
Proceeds from disposal of investments in associated entities	-	-	1	-
Acquisition of investments in associated entities	-	-	-	(1,231)
Cash and cash equivalents used in investing activities	**(1,228)**	**(1,403)**	**(85,566)**	**(87,047)**
Cash flows from financing activities				
Dividend paid	-	-	(859)	(859)
Cash and cash equivalents generated from financing activities	**-**	**-**	**(859)**	**(859)**
Increase / (decrease) in cash and cash equivalents	**49,052**	**49,069**	**11,993**	**12,183**
Cash and cash equivalents at the beginning of the year	158,027	157,835	87,225	86,865
Cash and cash equivalents at the end of the year	**207,079**	**206,904**	**99,218**	**99,048**

	6 months to 30 June 2010		6 months to 30 June 2009	
	Group	**Bank**	**Group**	**Bank**
Cash flow from interest received	28,796	27,974	38,940	37,429
Cash flow from interest paid	21,613	21,626	29,613	28,817

STATEMENT OF CASH FLOW
(all amounts in thousands of Euro)

The notes on pages 13 to 34 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Mortgage and Land Bank of Latvia was established as a state-owned commercial bank on 19 March 1993 by the Government of Latvia based on the Decree No 140 adopted by the Cabinet of Ministers. The Bank was registered with the Register of Enterprises of the Republic of Latvia on 3 June 1993. According to the Commercial Law the Bank was registered in the Commercial Register on 14 July 2004.

The operations of the Bank are regulated by the law On Credit Institutions and other effective laws of the Republic of Latvia, the Statutes of the Bank, the instructions of the Bank of Latvia and Financial and Capital Market Commission, as well as the decrees and regulations of the Cabinet of Ministers of the Republic of Latvia. The Bank is under the jurisdiction of the Ministry of Finance of the Republic of Latvia that represents the interests of the shareholder on behalf of the Cabinet of Ministers and holds 100% of the Bank's shares.

These interim financial statements on pages 8 to 34 have been accepted by the Board of Directors on 12 August 2010 and accepted by the Supervisory Council on 20 August 2010.

2 ACCOUNTING POLICIES

(1) Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by EU. These interim financial statements should be read in conjunction with the 2009 annual financial statements which have been prepared in accordance with IFRSs.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held as available-for-sale, trading securities, derivative financial instruments and investment properties.

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Instability in the global and Latvian financial markets and economies
Along with changes caused by the economic and financial crisis since 2008, among other things, financial markets have experienced material changes in the form of diminishing financial assets and increasing financing costs, and uncertainty in the business and investment environment has increased. Changes in the global financial markets have caused banks and other financial institutions to go bankrupt, with bank rescues being undertaken in many countries including Latvia. Although the recovery trend is strengthening in the global economy, it is currently not possible to predict reliably when Latvia's economy will begin to grow again.

The Management is unable to reliably estimate the possible effects on the Group's and the Bank's financial position of any further instability in the economy and financial markets of Latvia and other countries in the region, as well as of the economic downturn in Latvia. The Management believes that it is taking all the necessary measures to support sustainable growth of the Group's and the Bank's business in the present circumstances.

Impact on liquidity:
The volume of wholesale financing has significantly diminished since 2008. Such conditions may affect the Group's and the Bank's ability to obtain new borrowings and to refinance its existing borrowings on terms similar to those applied to earlier transactions.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

(1) Basis of preparation (continued)

Impact on borrowers:
Borrowers of the Group and the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on the Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. The Management based their decisions regarding the recoverable amounts of the assets on the available information, nevertheless it is not possible to predict reliably the impact of the economic downturn.

Impact on collateral:
The amount of provision for impaired loans is based on the Management's appraisals of the assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Latvia for many types of collateral, especially real estate, has been severely affected by the local economic slowdown resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

The accompanying financial statements are reported in thousands of lats, unless otherwise stated.

The accounting policies used in the preparation of the interim financial statements for the period ended 30 June 2010 are consistent with those used in the annual financial statements for the year ended 31 December 2009.

(2) Operating segments

Operating segment is different component of Group's activities which is related with offering products and services that are subject to risks and provide revenues that are different form other segments' risks and revenues. Operating segments with highest revenues received from external customers as well as segments that assets are 10 percent or more of the combined assets of all operating segments are disclosed separately.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Bank that makes strategic decisions.

(3) Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances. The Group reviews its loan portfolio to assess impairment on a regular basis. The Group uses stress tests to determine possible impact of changes in one or more variables used in estimation of the provision for impairment losses on the financial result. To the extent that past due loans in the existing loan portfolio increase by 1%, the provision would be estimated higher by LVL 928 thousand.
- Impairment on available for sale and held to maturity investments. The Group and the Bank determines that available for sale and held to maturity investments are impaired when the following criteria are met:
    - any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
    - the issuer experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
    - the issuer considers bankruptcy or a financial reorganization;
    - there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

NOTES TO THE FINANCIAL STATEMENTS

(3) Critical Accounting Estimates and Judgments (continued)

- Securities valued at fair value. The Group used quoted market prices to value securities carried at fair value as at year end for those securities which in the management's judgment are traded in active markets. The management had evaluated the activity of the Latvian securities market and has concluded that there is a significant reduction of activities in Latvian market, however, consider the market to be active with respect to type of securities held by the Group therefore quoted market prices available on Riga Stock Exchange were used to determine the fair values of the securities issued by Latvian issuers and traded on Riga Stock Exchange.

(4) Adoption of New or Revised Standards and Interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the reporting period:

- **Amendment to IFRS 2 Share-based Payment**
- **Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements**
- **IFRIC 12 Service Concession Arrangements**
- **IFRIC 17 Distributions of Non-cash Assets to Owners**
- **IFRIC 18 Transfers of Assets from Customers**
- **Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**
- **Amendments to IAS 24 Related Party Disclosures**

The main impact of these changes are as follows:

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2010). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009). Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have business combinations.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 29 March 2009). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 31 October 2009). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated and separate financial statements because the Group does not distribute non-cash assets to owners.

NOTES TO THE FINANCIAL STATEMENTS

(4) Adoption of New or Revised Standards and Interpretations (continued)

IFRIC 18 Transfers of Assets from Customers (effective for financial years beginning on or after 31 October 2009). The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated and separate financial statements because the Group/ Bank does not have such agreements.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011, Group have early adopted this Standard). The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments have no impact on the financial position or performance of the Group, however it has altered disclosure on related parties, as noted in Note 15.

Standards and interpretations that have been issued but are not yet effective

The standards and interpretations which have been issued as at the date of these financial statements but is not yet effective and which have not been early adopted by the Group:

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group has not yet evaluated the impact of the implementation of this standard.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010). The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Amendment to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011, once adopted by the EU). The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 April 2010, once adopted by the EU). The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3 RISK MANAGEMENT

RISK MANAGEMENT

The Group and the Bank manages all the major risks affecting the operation of the Group and the Bank in accordance with the Risk Management Policy approved by the Council of the Bank. The Risk Management Policy stipulates and describes the aggregate of measures used to ensure that a possibility of suffering losses is minimized in the event the invested or receivable resources would not be repaid or recovered in due time or full amount or the Group or the Bank would suffer other losses or would not derive the planned profit. Risk management is an integral component of the internal control system of the Group and the Bank and the risk management system has been established taking into account the size and structure of the Group and the Bank, as well as the best advisable practice, incl. the guidelines of Basel bank supervisory committee.
In light of the changes occurring on global financial markets and economy, a number of major improvements were made to the risk management system of the Group and the Bank during the reporting period, thus allowing to identify the risks more precisely and timely and to determine their impact on the future operations of the Group and the Bank.

The Group and the Bank abides by the following principles in its risk management:
- while assuming the risks the Group and the Bank shall be capable of implementing the aims and assignments defined in its development strategy in a longer run;
- the Group and the Bank shall operate by maintaining an optimum balance between profitability and safeguarding against the risks, i.e. the profitability must be as large as possible, however, the Group and the Bank shall not be exposed to the risks;
- risk assessment and management shall be an integral component of the every-day functions of the Group and the Bank;
- In accordance with their authority and competence the employees of the Group and the Bank shall know a customer and understand fully the nature of each transaction (operation) to be able to identify and assess the risks associated with the transaction (operation) and find the best solution both for the customer and the Group or the Bank;
- the Group and the Bank shall assess the probable losses that it might incur by assuming the risks and avoid extraordinary losses in its operation;
- the Group and the Bank shall identify and assess the probable risks before launching of new products or services or entering new markets;
- where necessary, the Group and the Bank shall reduce the risk limits, sell the assets subject to the risk or even leave the respective markets should these be assessed as excessively risky.

In managing the risks the Group and the Bank apply various methods and instruments for measuring risks, set the limits and maintain the appropriate controls. All risk policies are approved by the Council.

Credit Risk
The Group and the Bank is subject to the credit risk. The credit risk is the risk of the customer or co-operation partner not being able to or refusing to meet its liabilities towards the Group or the Bank in full amount and due time.
The Group and the Bank manages the credit risk according to the Credit Policy as well as internal regulations, procedures and instructions of credit operations.
The Credit Policy of the Bank describes and defines the principles for the management of the credit risk and it relates to all activities of the Group and the Bank involving credit risk – lending, financial market transactions (operations), intermediary activities on behalf of the clients and issue of guarantees to third parties.
Management process of credit risk within the Group and the Bank encompasses establishment of guidelines and limitations, granting of loans or setting limits to particular clients or groups of interrelated clients; administration, monitoring and evaluation of files of clients or interrelated client groups, as well as appropriate control of the process, operation of management information system and evaluation of the total efficiency of the process.
In establishment of guidelines and limitations, the Group and the Bank primarily follows the common strategy of the Group and the Bank, as well as their historic experience in credit risk management, which allows defining adequate limitations of concentration, as well as adequate assessment of creditworthiness

NOTES TO THE FINANCIAL STATEMENTS

and collateral, passing decisions in decision-making institutions of the appropriate level.

3 RISK MANAGEMENT (continued)

As the common strategy of the Group and the Bank encompasses gradual transformation of the Bank into development bank, the risk stemming from implementation of framework funding programmes becomes an increasingly significant risk source for the Group and the Bank.
The Bank's Lending department bears the responsibility for daily credit risk management in lending operations, incl. when setting criteria of creditworthiness and collateral adequacy, while decisions about assuming credit risk within the set limits are made by branch, regional and the Central lending committees, or the Board of the Bank. The daily supervision and administration of loans is conducted on the basis of each individual borrower's risk grade and affiliation, determined by organizational structure of the Group and the Bank.
The Risk management committee conducts the integrated monitoring of credit risk, incl. credit risk concentration and loan portfolio quality, while the Risk management department bears the responsibility for analysis of credit risk concentration, setting of limits and their control, quality assessment of the loan portfolio and building of provisions, as well as daily management of credit risk in operations with financial instruments. At least once a year, stress testing of the loan portfolio and scenario analysis is conducted, that includes changes of various macro-environment affecting factors (drop of real estate property prices, households' income decrease, contingent changes in development of various industries of national economy, and similar) and demonstrates the eventual impact on the Group's and the Bank's profitability, loan portfolio quality, volume of provisions and level of capital adequacy.
The Group and the Bank manages credit risk concentrations according to the Risk Exposures Controlling Policy that stipulates the methods of analysis of the credit risk concentrations and its controlling instruments including limits on credit risk concentrations. Credit risk concentration is managed by measuring and setting limits on the following concentrations:

- ratio of large exposure concentration and own funds (internal limit - 400%, limit set by the Law on Credit Institutions – 800%), as of 30.06.2010 was 31.5% (as of 31.12.2009 – 47.1%);
- ratio of single client's (related clients' group) large exposure and own funds, which may not exceed 25%, as of 30.06.2010 was 18.0% (as of 31.12.2009 – 20.7%);
- ratio of risk exposures with persons related to the Bank and own funds, which may not exceed 15%, as of 30.06.2010 was 1.1% (as of 31.12.2009 – 2.6%).
- proportion of risk concentration in a single economic sector in the Bank's credit portfolio and own funds as of 30.06.2010 was 79.4% (as of 31.12.2009 – 120.9%);

Since the Bank's strategy is not focused on servicing the non-residents business, the proportion of the Bank's total claims to non-residents was small and as of 30.06.2010 was 8.5% (as 31.12.2009 – 7.1 %) of the Bank's total assets. The Group and the Bank manages the country risk that results from the lending operations to non-residents according to the Country Risk Management Policy.
Each of the structural units involved in credit risk management maintain an appropriate internal control, efficiency of which is responsibility of the Internal audit department.
The management of the Group and the Bank has performed calculation of losses on the basis of all the facts at its disposal, unbiased proofs of depreciation, and believes the calculations disclosed in the financial reports are reasonable, considering the available information. Nonetheless, having the present awareness, it might occur, as a result of the next year's actual events, differing from the assumptions, that the respective book values of assets and liabilities be corrected.

Liquidity Risk
The liquidity risk relates to the ability of the Group and the Bank to redeem the legally valid claims of its customers and other creditors in due time and secure that the increase of the anticipated claims presents reasonable costs.
The principles for management of liquidity risk are determined by the Liquidity Risk Management Policy and Business Continuity Plan for Liquidity Crisis Situation. The Bank maintains that the liquid assets do not fall below 30% (set by the FCMC) of its short-term liabilities at all times.
The Assets and Liabilities Committee of the Bank stipulates the guidelines for liquidity risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS

3 RISK MANAGEMENT (continued)

To evaluate the liquidity risk, the Bank uses the GAP method. The Bank has set liquidity net position limit in each significant currency and total liquidity net position limit as well as maximum deposit amount from a single depositor to control the liquidity risk. At least once a month, scenario analysis or stress testing is conducted, to reveal the impact of contingencies on liquidity of the Group and the Bank.
Compliance with the liquidity ratio (min – 30%) was 117.1% as of 30.06.2010 (as of 31.12.2009 – 82.2%).

Foreign Currency Risk
The foreign currency risk occurs due to the differences between the asset and liability positions of foreign currencies that, as a result of the fluctuations of the exchange rates, affect the cash flow and financial results of the Group and the Bank. The principles for the management of the foreign currency risk are outlined in the Currency Risk Management Policy of the Bank.
Monitoring of the foreign currency risk is conducted by the Assets and Liabilities Management Committee of the Bank, whereas the Treasury Department provides for daily management of the foreign currency risk.
The Group and the Bank maintains a cautious foreign currency risk management policy and controls the foreign currency risk by imposing limits on the open currency positions for each currency and all currencies together consolidating in lats and by complying with the open currency position limits established in the law On Credit Institutions.

Interest Rate Risk
The interest rate risk is related to the influence of the fluctuations of the market rates onto the interest income and expenses of the Group and the Bank. To assess the interest rate risk the Group and the Bank analyses the maturity structure of the assets and liabilities sensitive to the changes in interest rates and susceptibility of the maturity structure to the potential fluctuations of the interest rates on a regular basis. The Assets and Liabilities Management Committee monitors the interest rate risk, whereas the Treasury Department is responsible for the daily management of the interest rate risk. The Bank has set limit on changes in economic value of the Bank at 17.5% of own funds and limit on changes in net interest income at 2% of own funds which, respectively, were 10.4% as of 30.06.2010 (as of 31.12.2009 – 7.6%) and 0.8% (as of 31.12.2009 – 0.4%).

Operational risk
The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group and the Bank, for example human mistake or fraud, disturbances in the operation of the information systems, insufficient control procedures or their ignorance. The Group and the Bank manages operational risk according to the Operational Risk Management Policy. Self-assessment method is used to measure the operational risk, whereas the Bank's operational risk information system is used to identify, analyse and control the operational risk, which registers and analyses occurrences of operational risk and calculates the scale of actual or potential losses. Structural units of the Group and the Bank are responsible for the management of the operational risk in the daily operations, but the Risk Management Committee supervises the operational risk. The Risk Management Department is responsible for implementation of the operational risk management in the Group and the Bank.
The Bank has implemented Business Continuity Plan that includes guidelines on actions to be taken by the Bank, its structural units and employees at occurrence of risks that can have substantial negative effect on the Bank's operations.

Capital Adequacy
Capital adequacy shows those capital resources of the Group and the Bank needed to cover the credit and market risks arising from asset-side and off-balance sheet positions and also against operational risks.
The Group and the Bank completely follows the requirements of Basel II in their capital adequacy evaluation process. The Group and the Bank uses the standardised approach to calculate minimum capital charge for credit and market risks and basic indicator approach – for operational risk.

NOTES TO THE FINANCIAL STATEMENTS

As of 30.06.2010, the capital adequacy ratio of the Bank calculated according to the regulations of the Financial and Capital Market Commission were 20.0% (as of 31.12.2009 - 12.8%) which exceeded the minimum of 8% for the ratio of the own capital and total of risk-weighted assets and off-balance sheet items.

3 RISK MANAGEMENT (continued)

The Group and the Bank also conducts the internal capital adequacy evaluation process (ICAAP), calculating capital requirements for those significant risks which do not have minimum regulatory capital requirements determined. The results of the internal capital adequacy evaluation as of 30.06.2010 were as follows:

	30/06/10 Bank
Capital base for internal capital adequacy evaluation	130,267
Total internal capital requirement	72,983
Internal capital adequacy ratio	14.3%
Surplus of capital base	57,284

4 PROVISION FOR IMPAIRMENT LOSSES

	6 months to 30 June 2010		**6 months to 30 June 2009**	
	Group	**Bank**	**Group**	**Bank**
Provision expense:				
- provisions for loans	48,984	48,849	19,966	19,542
- provisions for other assets	973	221	1,255	154
- provisions for securities	21	21	1,164	1,164
- provisions for due from credit institutions	20	20	-	-
- provisions for investments in subsidiaries	3	3	-	-
- provisions for off balance sheet liabilities	848	848	45	45
	50,849	**49,962**	**22,430**	**20,905**
Release of provision:				
- provisions for loans	(8,083)	(7,888)	(278)	(278)
- provisions for other assets	(13)	(13)	(46)	(30)
- provisions for securities	(736)	(736)	-	-
- provisions for off balance sheet liabilities	(117)	(117)	(15)	(15)
	(8,949)	**(8,754)**	**(339)**	**(323)**
Total provision for impairment losses - expense	**41,900**	**41,208**	**22,091**	**20,582**

NOTES TO THE FINANCIAL STATEMENTS

5 TRADING AND INVESTMENT SECURITIES

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Trading securities				
Latvian Treasury bills and government bonds	-	-	3,004	3,004
Non-OECD government bonds	-	-	160	160
Latvian corporate bonds	90	90	1,452	1,452
OECD corporate bonds	169	169	217	217
Non-OECD corporate bonds	-	-	26	26
Equity shares in Latvian corporate entities	24	24	41	41
Equity shares in OECD corporate entities	-	-	-	-
Equity shares in non-OECD corporate entities	-	-	19	19
Other investment	1,762	1,700	155	-
Total trading securities	**2,045**	**1,983**	**5,074**	**4,919**
Securities held to maturity				
Latvian Treasury bills and government bonds	-	-	-	-
OECD government bonds	1,320	1,320	1,251	1,251
Non-OECD government bonds	7,642	7,642	7,432	7,432
OECD corporate bonds	14,352	14,352	19,926	19,926
Non-OECD corporate bonds	7,397	7,397	5,889	5,889
Latvian corporate bonds	4,540	4,540	12,111	12,111
Total securities held to maturity	**35,251**	**35,251**	**46,609**	**46,609**
Provisions for impairment losses on securities	(3,168)	(3,168)	(3,625)	(3,625)
Total net securities held to maturity	**32,083**	**32,083**	**42,984**	**42,984**
Securities available-for-sale				
Latvian Treasury bills and government bonds	60,539	60,539	49,892	49,892
Non-OECD government bonds	372	372	-	-
Other investment	3,518	3,518	-	-
Total securities available-for-sale	**64,429**	**64,429**	**49,892**	**49,892**
Total net trading and investment securities	**98,557**	**98,495**	**97,950**	**97,795**

The following table shows the division of the Bank's debt securities by rating agency designation (*Moody`s investors Service*) as at 30 June 2010:

	Trading securities	**Investment securities available-for-sale**	**Securities held to maturity**	**Total net**
Aa1 - Aa3	155	372	3,846	4,373
A1 - A3	14	-	6,088	6,102
Baa1 - Baa3	-	60,538	14,953	75,491
Lover than Baa3	91	-	4,308	4399
Unrated	-	-	2,888	2,888
Total	**260**	**60,910**	**32,083**	**93,253**

NOTES TO THE FINANCIAL STATEMENTS

5 TRADING AND INVESTMENT SECURITIES (continued)

The following table shows the division of the Bank's debt securities by rating agency designation (*Moody`s investors Service*) as at 31 December 2009:

	Trading securities	Investment securities available-for-sale	Securities held to maturity	Total net
Aa1 - Aa3	1,317	-	7,326	8,643
A1 - A3	15	-	5,162	5,177
Baa1 - Baa3	3,164	49,892	13,459	66,515
Lover than Baa3	164	-	8,944	9,108
Unrated	199	-	8,093	8,292
Total	**4,859**	**49,892**	**42,984**	**97,735**

All securities are quoted on stock exchange. The average yield on investment securities as at 30 June 2010 was 4.1% (2009: 6.6%).

6 LOANS TO CUSTOMERS

Loans by type of borrower:

	30/06/10		31/12/09	
	Group	Bank	Group	Bank
Local government	1,477	1,225	1,614	1,319
State owned companies	6,854	6,854	2,420	2,420
Financial institutions	342	57,148	621	70,304
Private companies	441,399	402,642	483,804	429,800
Individuals	189,947	182,756	205,104	196,841
Management / staff	7,071	5,944	7,468	6,167
Public and religious institutions	634	634	673	673
Accrued interest on loans	5,733	5,783	5,412	5,418
Total gross loans	**653,457**	**662,986**	**707,116**	**712,942**
Provisions for impairment losses on loans	(95,750)	(95,091)	(74,435)	(73,441)
Total net loans	**557,707**	**567,895**	**632,681**	**639,501**

97.8% from loans issued by the Bank and the Group are loans to Latvia residents.

Analysis of loans issued by the Group and the Bank by type of valuation:

NOTES TO THE FINANCIAL STATEMENTS

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Individually assessed loans	474,905	484,434	497,122	502,948
Loans assessed on a group basis	178,552	178,552	209,994	209,994
Total gross loans	**653,457**	**662,986**	**707,116**	**712,942**
Provisions for impairment losses on individually assessed loans	(93,570)	(92,911)	(73,340)	(72,346)
Provisions for impairment losses on loans assessed on a group basis	(2,180)	(2,180)	(1,095)	(1,095)
Total net loans	**557,707**	**567,895**	**632,681**	**639,501**

6 LOANS TO CUSTOMERS (continued)

The following table provides the division of loans and advances to customers by quality (Bank):

	30/06/10 Bank			31/12/09 Bank		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Neither past due nor impaired	114,912	260,804	375,716	125,815	327,405	453,220
Past due but not impaired	17,453	33,557	51,010	27,707	43,148	70,855
Impaired	57,531	178,729	236,260	51,111	137,756	188,867
Total loans	**189,896**	**473,090**	**662,986**	**204,633**	**508,309**	**712,942**
Provisions for impairment losses on loans	(25,275)	(69,816)	(95,091)	(22,120)	(51,321)	(73,441)
Total net loans	**164,621**	**403,274**	**567,895**	**182,513**	**456,988**	**639,501**

The following table provides the division of loans and advances to customers by quality (Group):

	30/06/10 Group			31/12/09 Group		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Neither past due nor impaired	120,897	229,630	350,527	132,982	293,910	426,892
Past due but not impaired	18,531	42,600	61,131	29,311	54,630	83,941
Impaired	58,786	183,013	241,799	51,912	144,371	196,283
Total loans	**198,214**	**455,243**	**653,457**	**214,205**	**492,911**	**707,116**
Provisions for impairment losses on loans	(25,451)	(70,299)	(95,750)	(22,299)	(52,136)	(74,435)
Total net loans	**172,763**	**384,944**	**557,707**	**191,906**	**440,775**	**632,681**

The following table provides fair values of collaterals of impaired loans:

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Impaired loans	241,799	236,260	196,283	188,867
Fair value of collateral	159,175	151,344	129,762	124,430

The following table provides the division of restructured loans and advances to customers by type of borrower:

NOTES TO THE FINANCIAL STATEMENTS

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Individuals	20,726	20,726	10,596	10,596
Companies	69,044	69,044	62,454	62,454
Total net restructured loans	**89,770**	**89,770**	**73,050**	**73,050**

NOTES TO THE FINANCIAL STATEMENTS

6 LOANS TO CUSTOMERS (continued)

Analysis of movement in provisions for loan impairment losses

	30/06/10		31/12/09		30/06/09	
	Group	**Bank**	**Group**	**Bank**	**Group**	**Bank**
As at beginning of the year	**74,435**	**73,441**	**10,260**	**9,473**	**10,260**	**9,473**
Increase of provisions	48,984	48,849	76,537	76,324	19,966	19,542
Release from provisions	(8,083)	(7,888)	(4,557)	(4,551)	(278)	(278)
Adjustment (foreign exchange fluctuation)	99	98	67	67	-	-
Write-off of loans	(19,685)	(19,409)	(7,872)	(7,872)	(2,545)	(2,522)
As at end of the year	**95,750**	**95,091**	**74,435**	**73,441**	**27,403**	**26,215**

Maturity profile (Bank):

	30/06/10 Bank			31/12/09 Bank		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Overdue	9,240	39,978	49,218	10,200	26,036	36,236
Falling due within:						
1 month	1,354	13,422	14,776	1,553	15,723	17,276
1 – 3 months	2,147	11,897	14,044	2,407	26,030	28,437
3 – 6 months	2,852	30,076	32,928	3,042	27,839	30,881
6 –12 months	6,277	50,052	56,329	6,104	57,924	64,028
1 – 5 years	58,013	229,463	287,476	56,364	252,757	309,121
more than 5 years	110,013	98,202	208,215	124,963	102,000	226,963
Total loans	**189,896**	**473,090**	**662,986**	**204,633**	**508,309**	**712,942**
Less provision for loan impairment loss	(25,275)	(69,816)	(95,091)	(22,120)	(51,321)	(73,441)
Total net loans to customers	**164,621**	**403,274**	**567,895**	**182,513**	**456,988**	**639,501**

Maturity profile (Group):

	30/06/10 Group			31/12/09 Group		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Overdue	9,423	43,197	52,620	10,411	27,737	38,148
Falling due within:						
1 month	1,537	14,589	16,126	1,765	17,055	18,820
1 – 3 months	2,517	14,422	16,939	2,836	28,939	31,775
3 – 6 months	3,412	34,627	38,039	3,604	31,920	35,524
6 –12 months	7,336	57,666	65,002	7,321	67,135	74,456
1 – 5 years	63,874	192,397	256,271	63,121	217,631	280,752
more than 5 years	110,115	98,345	208,460	125,147	102,494	227,641
Total loans	**198,214**	**455,243**	**653,457**	**214,205**	**492,911**	**707,116**
Less provision for loan impairment loss	(25,451)	(70,299)	(95,750)	(22,299)	(52,136)	(74,435)
Total net loans to customers	**172,763**	**384,944**	**557,707**	**191,906**	**440,775**	**632,681**

NOTES TO THE FINANCIAL STATEMENTS

6 LOANS TO CUSTOMERS (continued)

The following table provides the division of loans and advances to customers past due but not impaired:

	30/06/10 Bank			31/12/09 Bank		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Past due up to 30 days	12,687	20,553	33,240	19,696	24,249	43,945
Past due 30-60 days	3,029	4,808	7,837	3,659	8,857	12,516
Past due 60-90 days	608	1,669	2,277	2,192	3,935	6,127
Past due over 90 days	1,129	6,527	7,656	2,160	6,107	8,267
Total loans	**17,453**	**33,557**	**51,010**	**27,707**	**43,148**	**70,855**

The following table provides the division of loans and advances to customers past due but not impaired:

	30/06/10 Group			31/12/09 Group		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Past due up to 30 days	13,765	29,596	43,361	21,300	35,731	57,031
Past due 30-60 days	3,029	4,808	7,837	3,659	8,857	12,516
Past due 60-90 days	608	1,669	2,277	2,192	3,935	6,127
Past due over 90 days	1,129	6,527	7,656	2,160	6,107	8,267
Total loans	**18,531**	**42,600**	**61,131**	**29,311**	**54,630**	**83,941**

The average interest rate for the loan portfolio as at 30 June 20105.7 was 6.2% per annum (5.5% at 31 December 2009).

7 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES

The Bank's investments in subsidiaries and associated entities are specified as follows:

	Share capital	Total equity	Bank's share (%)	Investment value 30/06/09	Investment value 31/12/08
SIA "Hipolīzings"	645	560	100	300	300
SIA "Hipotēku bankas nekustamā īpašuma aģentūra"	915	(165)	100	677	680
SIA „Risku investīciju sabiedrība"	500	513	100	500	500
KS „Mazo un vidējo komersantu atbalsta fonds"	101	87	47.62	48	48
Total				**1,525**	**1,528**

The consolidation group also includes the following entities: IPS „Hipo Fondi" (87% owned by SIA „Risku investīciju sabiedrība") and SIA „Rīgas centra namu pārvalde" (100% owned by SIA „Risku investīciju sabiedrība").

NOTES TO THE FINANCIAL STATEMENTS

8 OTHER ASSETS

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Real estate held for sale	9,051	455	3,967	125
Other assets	4,854	2,270	5,582	2,044
Total other assets (gross)	**13,905**	**2,725**	**9,549**	**2,169**
Impairment provision	(1,222)	(442)	(653)	(304)
Total other assets (net)	**12,683**	**2,283**	**8,896**	**1,865**

9 DUE TO CREDIT INSTITUTIONS

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Due to credit institutions registered in OECD area	277,926	277,926	361,226	361,226
Due to credit institutions registered in Latvia	17,068	17,068	18,286	18,286
	294,994	**294,994**	**379,512**	**379,512**

Maturity profile:

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Falling due within:				
1 month	37,484	37,484	21,959	21,959
1 – 3 months	82,720	82,720	5,885	5,885
3 – 6 months	19,645	19,645	28,817	28,817
6 –12 months	32,344	32,344	123,535	123,535
1 – 5 years	91,882	91,882	136,676	136,676
more than 5 years	30,919	30,919	62,640	62,640
	294,994	**294,994**	**379,512**	**379,512**

Due to credit institutions include the following syndicated loans which totaled to 151 mln LVL (at 31 December 2009: 184 mln LVL):

Lender/arranger	Amount	Currency	Maturity
Standard Bank Plc (14 participants)	177,500	EUR	30.08.2010
Sumitomo Mitsui Banking Corporation (3 participants)	18,488	EUR	15.06.2012
Raiffeisen Zentralbank Osterreich (15 participants)	85,000	EUR	16.06.2012

The average interest rate for due to credit institutions as at 30 June 2010 was 3.0% (at 31 December 2009: 2.4%).

NOTES TO THE FINANCIAL STATEMENTS

10 DUE TO CUSTOMERS

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Central government	2,954	2,954	2,912	2,912
Local government	5,744	5,744	3,411	3,411
State owned companies	8,129	8,129	8,034	8,034
Financial institutions	44,495	45,093	55,298	55,336
Private companies	42,272	42,356	41,769	41,793
Individuals	214,969	214,969	206,742	206,742
Public and religious organisations	5,549	5,549	4,996	4,996
Accrued interest	4,118	4,118	3,537	3,537
Total due to customers	**328,230**	**328,912**	**326,699**	**326,761**

Due to customers analysis by term:

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
On demand	73,824	74,442	63,179	63,214
Term balances	254,406	254,470	263,520	263,547
Total due to customers	**328,230**	**328,912**	**326,699**	**326,761**

99.4% of the deposits with the Bank are the Bank's liabilities to residents of Latvia, the remaining 0.6% of the deposits are liabilities to other countries residents.

The average interest rate for demand deposits at 30 June 2010 was 0.3% (0.4% at 31 December 2009), for term deposits – 5.5% (5.9% at 31 December 2009).

NOTES TO THE FINANCIAL STATEMENTS

11 ISSUED DEBT SECURITIES

	30/06/10 Bank	31/12/09 Bank
Mortgage bonds	36,171	38,249
Other debt securities	-	-
Total	**36,171**	**38,249**

The purpose of mortgage bonds issuing was to attract financial resources for refinancing of the long-term mortgage loans. The purpose of debt securities issuing was to attract financial resources for financing general Bank activities.

All mortgage bonds issued by the Bank are assigned Baa2 rating by Moody's Investors Service. All issued debt securities are quoted on the Official List of the Riga Stock Exchange.

The average annual interest rate of the issued securities was 3.3% (as at 31 December 2009: 4.9%).

Statement on Mortgage bond coverage as at 30 June 2010

(a) Issued mortgage bonds

ISIN	Security class	Number of mortgage bonds	Face value	Registered volume	Coupon rate, %	Maturity date	Outstanding volume, LVL	Book value LVL
LV0000800266	AN	30,000	100 LVL	3,000,000	5.625%*	15.08.2010.	3,000,000	3,063,952
LV0000800100	AH	20,000	100 LVL	2,000,000	7.5%	15.08.2011.	1,108,300	1,138,909
LV0000800217	BA	100,000	100 USD	10,000,000	1.125%**	15.08.2011.	3,438,000	3,452,612
LV0000800688	C01CC	250,000	100 EUR	25,000,000	5.70%	15.02.2011.	8,694,388	8,861,696
LV0000800340	CA	200,000	100 EUR	20,000,000	1.25***	15.02.2012.	10,877,579	10,927,413
LV0000800142	AL	50,000	100 LVL	5,000,000	6.0%	15.08.2012.	4,981,600	5,090,904
LV0000800159	AM	70,000	100 LVL	7,000,000	5.25%	15.08.2013.	3,573,800	3,635,812
						Total	**35,673,667**	**36,171,298**

* floating coupon rate (6 month RIGIBOR plus 0.5%) that is revised twice every year on 15 February and 15 August
** floating coupon rate (6 month LIBOR plus 0.8%) that is revised twice every year on 15 February and 15 August
***floating coupon rate (6 month EURIBOR plus 0.29%) that is revised twice every year on 15 February and 15 August

(b) Structure of Mortgage bond coverage

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 30 June 2010 amounted to LVL 58,046 thousand (as at 31 December 2009: LVL 94,666 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans (ordinary cover) in the amount of LVL 58,046 thousand (as at 31 December 2009: mortgage loans - LVL 114,317 thousand and substitute cover amounting - LVL 9,480 thousand).

As at 30 June 2010 the amount of assets included in the Mortgage Bond Cover Register exceeds the amount of mortgage bonds in circulation by 45.4% (as at 31 December 2009: 65.4%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

NOTES TO THE FINANCIAL STATEMENTS

12 SHARE CAPITAL

Share capital as at 30 June 2009 and 31 December 2009 was as follows:

	30/06/10		31/12/09	
Fully paid share capital	**Number**	**LVL**	**Number**	**LVL**
Ordinary shares	191,601,311	191,601,311	121,320,911	121,320,911
Total fully paid share capital	**191,601,311**	**191,601,311**	**121,320,911**	**121,320,911**

According to the Articles of Association, the fully paid share capital of the Bank consists of 191,601,311 ordinary shares in the total amount of LVL 191,601,311, owned by the Republic of Latvia. The nominal value of each share is LVL 1.

In accordance with the decision of the bank`s shareholder, the Bank has increased its fixed capital by LVL 70,280 thousand. Thus the total volume of the fixed capital has reached LVL 191,601 thousand. The increase of fixed capital was performed according the state budget law for year 2010.

13 CASH AND CASH EQUIVALENTS

	30/06/10		31/12/09		30/06/09	
	Group	**Bank**	**Group**	**Bank**	**Group**	**Bank**
Cash	10,304	10,304	7,715	7,715	8,202	8,202
Placements with the Bank of Latvia	112,591	112,591	88,282	88,282	21,057	21,057
Placements with other credit institutions	23,814	23,689	26,780	26,645	32,009	31,891
Placements with other credit institutions with remaining maturity up to 3 months	5,732	5,732	5,000	5,000	51,832	51,832
Placements from other credit institutions with remaining maturity up to 3 months	(6,904)	(6,904)	(16,715)	(16,715)	(43,370)	(43,370)
	145,537	**145,412**	**111,062**	**110,927**	**69,730**	**69,612**

14 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES

	30/06/10		31/12/09	
	Group	**Bank**	**Group**	**Bank**
Contingent liabilities				
outstanding guarantees	16,643	19,228	12,080	14,194
Financial commitments				
unutilised loan facilities	16,582	24,416	32,685	55,077
Other liabilities	914	914	252	252
Total	**34,139**	**44,558**	**45,017**	**69,523**

NOTES TO THE FINANCIAL STATEMENTS

15 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholder who has significant influence over the Bank, members of the Council, the Board of Directors and the Bank's higher level management, their close relatives and companies in which they have a controlling interest as well as Bank's subsidiaries and companies, in which the Bank is having a significant influence.

The following loans and deposits were held with related parties at 30 June 2010:

	30/06/10 Bank	31/12/09 Bank
Loans:		
- Members of the Council, the Board and high level management	1,108	1,260
- subsidiaries	65,556	73,765
- other related parties	3,040	3,261
Total loans held by related parties	**69,704**	**78,286**
Deposits:		
- Members of the Council and the Board and high level management	479	479
- subsidiaries	682	63
- other related parties	777	1,067
Total deposits held by related parties	**1,938**	**1,609**

The Banka has entered into a guarantee agreement with SIA Hipolīzings for covering lease losses totalling LVL 6,000 thousand. According to the agreement, the Bank has established impairment allowance for doubtful lease receivables. The balance of the above provisions as at 30 June 2010 amounted to LVL 2,846 thousand (31 December 2009: LVL 3,886 thousand). Impairment allowance for other receivables from subsidiaries as at 30 June 2010 amounted to LVL 754 thousand (31 December 2009: LVL 431 thousand).

Bank's income / (expenses) from transactions with related parties:

	6 months to 30 June 2010 Bank	6 months to 30 June 2010 Bank
Interest income from loans to related parties	964	1,718
Interest expenses for deposits held from related parties	(31)	(67)
Total income, net	**933**	**1,651**

The average interest rate as at 30 June 2010 on loans issued to related parties was 3.4% per annum (2.5% as at 31 December 2009). The average interest rate as at 30 June 2010 on deposits held for related parties was 2.8% per annum (6.4% as at 31 December 2009)

16 SEGMENT ANALYSIS

Group's operations are managed based on two operating segments:
Promotional programs: operating segment comprises loans to particular SME's or individuals according to priorities defined by the Government or within the scope of European Union promotional programs.

Commercial services (Bank): operating segment comprises Bank's services to individuals and legal entities, loans to customers, accounts, savings and investments, serving payment cards.

Commercial services (Associated companies): operating segment comprises associated companies' services with real estate, leasing and asset management.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

16 SEGMENT ANALYSIS (continued)

6 months to 30 June 2010 Group	**Promotional programs**	**Commercial services Bank**	**Commercial services Associated comp.**	**Reconciliation**	**Group**
Revenue form external customers	10,470	14,721	2,693	-	27,884
Intersegment revenue	887	4,246	272	(5,405)	-
Total revenues	**11,357**	**18,967**	**2,965**	**(5,405)**	**27,884**
External expense	(23,734)	(41,181)	(2,271)	-	(67,186)
Intersegment expense	(3,198)	(1,163)	(1,044)	5,405	-
Total expenses	**(26,932)**	**(42,344)**	**(3,315)**	**5,405**	**(67,186)**
Loss before income tax	**(15,575)**	**(23,377)**	**(350)**	**-**	**(39,302)**
Income tax expense	-	-	-	-	- (21)
Net loss for the period	**(15,575)**	**(23,377)**	**(350)**	**-**	- **(39,323)**
Provision for investment in associated comp.	-	(322)	-	322	**-**
Total revenue comprise:					
Interest income	8,724	10,087	1,364	-	20,175
Interest income from other segments	556	1,868	9	(2,433)	-
Fee and commission income	78	1,608	428	-	2,114
Fee and commission income from other segments	-	860	66	(926)	-
Other income	1,668	3,026	901	-	5,595
Other income from segments	331	1,518	197	(2,046)	-
Total revenue	**11,357**	**18,967**	**2,965**	**(5,405)**	**27,884**
Total expense comprise:					
Interest expense	(1,158)	(14,620)	-	-	(15,778)
Interest expense to other segments	(1,039)	(565)	(947)	2,551	-
Fee and commission expense	-	(404)	(65)	-	(469)
Fee and commission expense to other segments	(654)	(67)	(88)	809	-
Administrative expenses	(326)	(6,635)	(1,107)	-	(8,068)
Administrative expenses to other segments	(1,505)	(531)	(9)	2,045	-
Depreciation and amortization	(17)	(869)	(85)	-	(971)
Provision for impairment losses	(22,233)	(18,653)	(1,014)	-	(41,900)
Total expense	**(26,932)**	**(42,344)**	**(3,315)**	**5,405**	**(67,186)**
Provision for investment in associated comp.	-	(322)	-	322	**-**

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

16 SEGMENT ANALYSIS (continued)

30/06/10 Group	Promotional programs	Commercial services Bank	Commercial services Associated comp.	Reconciliation	Group
Reportable segment assets	**252,233**	**633,740**	**70,387**		
Segment assets comprise:					
Cash and balances with Central Bank	-	122,895	-	-	122,895
Securities	16,784	81,711	62	-	98,557
Securities to other segments	-	-	231	(231)	-
Due from credit institutions	-	29,893	125	-	30,018
Due from other segments	14,929	37,515	682	(53,126)	-
Loans to customers	220,122	281,508	56,077	-	557,707
Loans to other segments	-	66,265	-	(66,265)	-
Other assets	398	11,107	13,210	-	24,715
Other assets to other segments	-	2,846	-	(2,846)	-
Total assets	**252,233**	**633,740**	**70,387**	**(122,468)**	**833,892**
Reportable segment liabilities and shareholder's equity	**252,233**	**633,740**	**70,387**		
Segment liabilities comprise:					
Due to credit institutions	80,239	214,755	-	-	294,994
Due to other segments	4,746	14,929	65,556	(85,231)	-
Due to customers	-	328,230	-	-	328,230
Due to other segments (deposits)	-	682	-	(682)	-
Issued debt securities	-	35,940	-	-	35,940
Issued debt securities to other segments	-	231	-	(231)	-
Other liabilities	25,882	5,006	1,193	-	32,081
Other liabilities to segments	32,769	-	2,398	(35,167)	-
Subordinated liabilities	-	31,089	-	-	31,089
Shareholders equity	108,597	2,878	83	-	111,558
Shareholders equity to other segments	-	-	1,157	(1,157)	-
Total liabilities and shareholder's equity	**252,233**	**633,740**	**70,387**	**(122,468)**	**833,892**

NOTES TO THE FINANCIAL STATEMENTS

16 SEGMENT ANALYSIS (continued)

6 months to 30 June 2009 Group	**Promotional programs**	**Commercial services Bank**	**Commercial services Associated comp.**	**Reconciliation**	**Group**
Revenue form external customers	3,412	32,982	2,487	-	38,881
Intersegment revenue	154	2,606	1,643	(4,403)	-
Total revenues	**3,566**	**35,588**	**4,130**	**(4,403)**	**38,881**
External expense	(7,360)	(38,895)	(2,965)	-	(49,220)
Intersegment expense	(2,606)	(154)	(1,643)	4,403	-
Total expenses	**(9,966)**	**(39,049)**	**(4,608)**	**4,403**	**(49,220)**
Loss before income tax	**(6,400)**	**(3,461)**	**(478)**	**-**	**(10,339)**
Income tax expense	-	-		-	1,004
Net loss for the period	**(6,400)**	**(3,461)**	**(478)**	**-**	**(9,335)**
Total revenue comprise:					
Interest income	3,218	25,305	1,327	-	29,850
Interest income from other segments	154	1,554	1,469	(3,177)	-
Fee and commission income	56	1,884	108	-	2,048
Fee and commission income from other segments	-	678	94	(772)	-
Other income	138	5,793	1,052	-	6,983
Other income from segments	-	374	80	(454)	-
Total revenue	**3,566**	**35,588**	**4,130**	**(4,403)**	**38,881**
Total expense comprise:					
Interest expense	(915)	(15,603)	(368)	-	(16,885)
Interest expense to other segments	(1,554)	(154)	(1,467)	3,175	-
Fee and commission expense	-	(451)	(33)	-	(484)
Fee and commission expense to other segments	(678)	-	(95)	773	-
Administrative expenses	(213)	(7,552)	(950)	-	(8,715)
Administrative expenses to other segments	(374)	-	(81)	455	-
Depreciation and amortization	(12)	(927)	(106)	-	(1,045)
Provision for impairment losses	(6,220)	(14,362)	(1,509)	-	(22,091)
Total expense	**(9,966)**	**(39,049)**	**(4,608)**	**4,403**	**(49,220)**

NOTES TO THE FINANCIAL STATEMENTS

16 SEGMENT ANALYSIS (continued)

31/12/09 Group	Promotional programs	Commercial services Bank	Commercial services Associated comp.	Reconciliation	Group
Reportable segment assets	**282,915**	**721,318**	**78,530**	-	-
Segment assets comprise:					
Cash and balances with Central Bank	-	95,997		-	95,997
Securities	-	97,795	155	-	97,950
Securities to other segments	-	-	820	(820)	-
Due from credit institutions	-	35,276	135	-	35,411
Due from other segments	35,843	84,159	62	(120,064)	-
Loans to customers	246,813	317,902	67,966	-	632,681
Loans to other segments	-	74,786	-	(74,786)	-
Other assets	259	13,047	9,392	-	22,698
Other assets to other segments	-	2,356	-	(2,356)	-
Total assets	**282,915**	**721,318**	**78,530**	**(198,026)**	**884,737**
Reportable segment liabilities and shareholder's equity	**282,915**	**721,318**	**78,530**	-	-
Segment liabilities comprise:					
Due to credit institutions	118,496	261,016	-	-	379,512
Due to other segments	51,086	35,843	73,786	(160,715)	-
Due to customers	-	324,749	-	-	324,749
Due to other segments (deposits)	-	62	-	(62)	-
Issued debt securities	-	37,429	-	-	37,429
Issued debt securities to other segments	-	820	-	(820)	-
Other liabilities	26,470	5,846	1,256	-	33,572
Other liabilities to other segments	33,073	-	1,876	(34,949)	-
Subordinated liabilities	-	31,089	-	-	31,089
Shareholders equity	53,790	24,464	132	-	78,386
Shareholders equity to other segments	-	-	1,480	(1,480)	-
Total liabilities and shareholder's equity	**282,915**	**721,318**	**78,530**	**(198,026)**	**884,737**