



ABLV

BANKING / INVESTMENTS \ ADVISORY

# ABLV Bank, AS

Interim condensed consolidated annual report  
for the six-month period ended 30 June 2012

Riga, 15 August 2012

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## **ABLV Bank, AS**

### **Report of the Council and the Board**

Dear shareholders and employees of ABLV Bank, AS,

In the first half of 2012, ABLV Group succeeded in continuing implementation of major tasks set for this year: expansion of the group's and the bank's operations and increase of their profitability, alongside improvement of business risks managing methods.

The first half of 2012 was a rather difficult and eventful period of time all over the world. There were instability and diverse trends still prevailing at the markets. Despite declining economic growth in Europe, the economy of Latvia continued to recover. In Q1 2012 Latvia demonstrated the most rapid year-on-year growth among all the European Union member states, and the country's GDP growth forecast for this year was increased to 4.0% by Latvian Ministry of Finance. Naturally, the situation in financial markets and economy in general affects operations of our bank in different ways.

In the first half of 2012, Spain and Cyprus faced new wave of crisis, becoming the fourth and the fifth euro area country forced to replace market financing with non-market lending. Uncertainty about future of these countries' financial systems made the investors look for other resort for their funds. This was one of the factors boosting increase of deposits with ABLV Bank, AS. Since the beginning of the year, the amount of deposits has grown by 15.3%, reaching LVL 1.85 billion, and this trend was also maintained in July. Among commercial banks operating in Latvia, ABLV Bank is ranked first in terms of the amount of deposits and is also the largest private bank in Latvia in terms of the overall business volume.

During the reporting period, liquidation process of bankrupt company MF Global UK was continued. MF Global UK was one of the custodians of our customers' securities and cooperation partner in securities trading. Taking care of our customers' assets, we made a very important decision aimed at further improvement of the bank's investment business. In the reporting period, the bank assumed the customers'—securities holders' risks and possible losses related to their assets with MF Global UK, as well as covered administrative expenses under getting the funds and securities back from MF Global UK. The bank used its own funds to acquire securities worth LVL 7.4 million to substitute the customers' securities held with MF Global UK. The bank's direct expenses and allowances under assuming the customers' risk equalled LVL 2.6 million in the reporting period. Therefore, the bank's profit indicator for the first half of the year was decreased, but this will definitely pay off in the long-term by growing customers' loyalty and investment business development. This was also a valuable experience, which will be useful in future.

At the beginning of 2012, the bank's shareholders were paid dividends for 2011, at the same time allowing a possibility to re-invest the funds in the bank's growth – i.e., to acquire the bank's newly issued shares. There were 10 600 shares issued, thus increasing the bank's equity by LVL 15.0 million. At the 2<sup>nd</sup> stage of share offer, the demand was 4.5 times higher than supply. 35 current shareholders of the bank acquired the issued shares. In March 2012, there also were employee shares issued and distributed between 21 key officers of the bank, thus establishing unified motivation system for achieving successful results. Currently, the bank's equity is constituted by 131 600 shares, i.e., 120 600 voting shares and 11 000 employee shares without voting rights attached.

In 2012, the bank continued gradual replacement of long-term deposits with bonds issued by the bank. At the end of June, there were two issues of subordinated bonds denominated in EUR and USD performed, the amount of which was EUR 5 million and USD 20 million, with the bonds' maturity term being 10 years, and fixed income of 4.5% p.a. set. The new bonds were offered to customers and officers of ABLV Group, and 90 of them acquired the bonds. Just like previous ones, the new bonds are included in the NASDAQ OMX Riga stock exchange list of debt securities. Since the bank's customers demonstrate great interest in this type of investments, the bonds will be also issued in the future.

#### **Bank**

We have established a sustainable and diversified business model, which allowed the group's profit over the first six months of 2012 to be equal to LVL 4.9 million, whereas profit of ABLV Bank, AS amounted to LVL 5.7 million.

In 2012, growth was maintained in all lines of ABLV Group business.

- In H1 2012, the bank's operating income before allowances for credit losses amounted to LVL 31.8 million.
- During six months of 2012, the amount of deposits with the bank has grown by 15.3%, reaching LVL 1.85 billion.
- As at 30 June 2012, the amount of the bank's assets equalled LVL 2.04 billion; ABLV Bank, AS ranked fourth in terms of the amount of assets among commercial banks operating in Latvia.

## **ABLV Bank, AS**

### **Report of the Council and the Board**

- The bank's loan portfolio has decreased to LVL 459.3 million (as at 31 December 2011, it was equal to LVL 470.6 million). We hold to very conservative approach in crediting – the loan portfolio constitutes 22.5% of the bank's total assets.
- Necessary allowances made under the loan portfolio and other assets amounted to LVL 56.3 million.
- The bank's capital and reserves amounted to LVL 94.0 million (LVL 90.1 million as at 31 December 2011).
- As at 30 June 2012, the bank's capital adequacy ratio was 14.2%, whereas liquidity equalled 69.8%.
- ROE reached 12.05%, and ROA – 0.59%.

The bank continued investing available funds in securities. The total amount of the securities portfolio was equal to LVL 982.1 million, as at 30 June 2012. The bank's securities portfolio is mostly composed of fixed-income debt securities. Securities having credit rating AA- and higher constitute 79.6% of the total securities portfolio. In terms of the investment amount, securities are allocated as follows: USA – 30.0%, Russia – 14.4%, Canada – 12.5%, Germany – 10.7%, Sweden – 6.1%, Netherlands – 3.1%, Great Britain – 3.0%, Latvia – 2.4%, Norway – 1.7%. Whereas 10.1% is constituted by securities issued by international institutions – the European Commission, ERAB, etc. In the reporting period, annual yield of the securities portfolio amounted to 2.4%.

Developing the bank's range of services, starting from June this year we offer our customers an opportunity to obtain financing secured by not only pledge of securities, but also by funds available in cash account. As before, the customers can use financing to obtain additional funds for purchasing new financial instruments and unallocated precious metals or to transfer funds from cash account to current account.

#### **Investments**

In the first six months of 2012, affiliate companies of ABLV Bank – brokerage joint stock company ABLV Capital Markets and investment management joint stock company ABLV Asset Management – worked hardly on launching new products and improving existing ones.

In the reporting period, having assessed growing demand for investments in precious metals, we started offering another investment solution to our customers – precious metals' account. Precious metals' account is an alternative to traditional investment products or a tool to be used in combination with those in order to ensure diversification of customer's investment portfolio by including precious metals into it. Transactions in unallocated gold, silver, platinum, and palladium are ensured.

As at the end of June 2012, ABLV Asset Management, IPAS total assets under management amounted to LVL 29.1 million, of which LVL 25.0 million were customers' investments in funds managed by the company and LVL 4.1 million were customers' funds invested in individual investment programmes.

Beginning of 2012 was also successful for ABLV Capital Markets, IBAS, which executes customers' instructions for purchasing and selling all types of financial instruments in the world's major stock markets. In the first half of the year, profit of ABLV Capital Markets, IBAS amounted to LVL 687.8 thousand. As at 30 June 2012, total assets of the company's customers invested in financial instruments were equal to LVL 288.8 million.

The bank's affiliate company ABLV Private Equity Management, SIA continued its development; this company establishes and manages risk capital investment funds for making investments in share capital of promising Latvian and foreign companies. ABLV Private Equity Management, SIA manages direct investment fund ABLV Private Equity Fund 2010, KS, established in July 2010. In the reporting period, ABLV Private Equity Fund 2010, KS participated in the transaction which allowed management of SIA Depo DIY to increase their share in SIA Depo DIY from 28% to 75% by purchasing shares previously owned by financial investors. SIA Depo DIY operates the largest building materials and household goods retail chain in Latvia – Depo. As a result of the transaction, ABLV Private Equity Fund 2010 owns 25% of SIA Depo DIY capital shares. Earlier, the fund has acquired capital shares of biogas producing company, pharmaceutical company and special private clinic.

Whereas companies of ABLV Transform group, engaged in development, management and maintenance of taken over and purchased real estate, this year have already sold 120 properties for more than LVL 6.0 million. During the reporting period, such important projects as Mārtiņa nams and Pine breeze were completed and virtually all apartments in those sold.

#### **Advisory**

The service of obtaining residence permit in Latvia, rendered by ABLV Corporate Services, SIA, remains to be the most popular one. During the first six months of the year, we have assisted 42 customers in receiving residence permits for them and their families.

**ABLV Bank, AS**  
**Report of the Council and the Board**

During the reporting period, the customers also used other advisory services – advice on establishing holding structures, settling trusts, and assistance in changing tax residency.

ABLV Consulting Services, AS was also operating successfully, assisting in maintaining relations with existing customers and attracting new customers at ABLV Group target markets. ABLV Group has 10 representative offices in 7 countries – in Russia, Ukraine, Belarus, Kazakhstan, Tajikistan, Azerbaijan, and Uzbekistan.

At the beginning of April 2012, ABLV representative office in Minsk moved to new premises located at 70 Mjasnikova street. The new office follows the pattern of meeting premises in Riga office, maintaining our customer service standards and complying with the brand requirements. The premises of other representative offices will be also gradually redesigned to meet these standards.

Work on establishing ABLV Bank subsidiary bank in Luxembourg is continued. ABLV Luxembourg, S.A. has applied to the Luxembourg financial market regulator for obtaining a banking licence. Temporary office premises are already rented, key officers employed, and now development of normative documents and coordination of business processes take place.

**For society**

In 2012, ABLV Bank, in cooperation with ABLV Charitable Foundation, continued supporting various socially important projects.

Owing to donations made by ABLV Bank officers and customers during Christmas fund drive, ABLV Charitable Foundation supported 24 summer camps for 450 children in 2012. The aim of the support programme is to facilitate successful integration of poor children and children with special needs into society, allowing them to go to rehabilitational and educational summer camps.

Art exhibitions supported by the bank and charitable foundation were also greatly appreciated by public. We supported exhibition of dress collection brought by world famous fashion historian Alexandre Vassiliev, which took place in Riga for the fourth time already. The name of the exhibition was *Art Nouveau Fashion*.

We express our gratitude to our shareholders and customers for their loyalty and to all employees for their important contribution in achievement of the company's targets!



Chairman of the Council  
**Oļegs Fiļs**



Chairman of the Board  
**Ernests Bernis**

Riga, 15 August 2012

## **ABLV Bank, AS** **The Council and the Board**

### **The Council of the bank:**

Chairman of the Council:  
Oļegs Fiļs

Date of election:  
04/10/2011

Deputy Chairman of the Council:  
Jānis Krīgers

Date of re-election:  
04/10/2011

Council Member:  
Igoris Rapoportis

Date of re-election:  
04/10/2011

Resigned as Chairman of the Council:  
Aleksandrs Bergmanis

Date of resignation:  
23/08/2011

### **The Board of the bank:**

Chairman of the Board:  
Ernests Bernis - Chief Executive Officer (CEO)

Date of re-election:  
17/10/2011

Deputy Chairman of the Board:  
Vadims Reinfelds – Deputy Chief Executive Officer (dCEO)

Date of re-election:  
17/10/2011

Resigned as Deputy Chairman of the Board:  
Oļegs Fiļs – Deputy Chief Executive Officer (dCEO)

Date of resignation:  
03/10/2011

Board Members:  
Aleksandrs Pāže – Chief Compliance Officer (CCO)  
Edgars Pavlovičs – Chief Risk Officer (CRO)  
Māris Kanneņieks – Chief Financial Officer (CFO)  
Rolands Citajevs – Chief IT Officer (CIO)

Date of re-election:  
17/10/2011  
17/10/2011  
17/10/2011  
17/10/2011

Romāns Surnačovs – Chief Operating Officer (COO)

Date of election:  
17/10/2011

Resigned as Board Member :  
Vadims Reinfelds – Chief Operating Officer (COO)

Date of resignation:  
16/10/2011

Chairman of the Council  
**Oļegs Fiļs**

Chairman of the Board  
**Ernests Bernis**

Riga, 15 August 2012

## **ABLV Bank, AS** **Statement of Management's Responsibility**

The Council and the Board of the bank (hereinafter – the management) are responsible for the preparation of the financial statements of the bank as well as for the preparation of the consolidated financial statements of the bank and its subsidiaries (hereinafter – the group). The financial statements are prepared in compliance with the requirements of the Law of the Republic of Latvia on Credit Institutions, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 8 to 33 are prepared in accordance with the source documents and present fairly the financial position of the bank and the group as at 30 June 2012 and 31 December 2011, and results of their operations, changes in the shareholders' equity and cash flows for the six-month periods ended 30 June 2012 and 30 June 2011.

The aforementioned financial statements are prepared on a going concern basis in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, as well as consistently applying accounting policies in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The management of the bank are 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 group. The management of the bank are also responsible for operating the group and the bank in compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Bank of Latvia and the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.



Chairman of the Council  
**Oļegs Fiļs**



Chairman of the Board  
**Ernests Bernis**

Riga, 15 August 2012

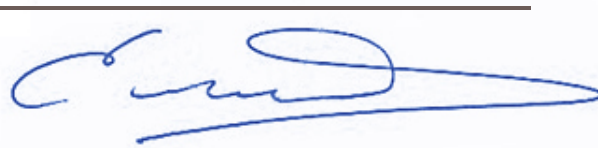
## ABLV Bank, AS

### Interim consolidated income statements and other statements of comprehensive income for the six-month periods ended 30 June 2012 and 30 June 2011

|   | Notes | Group                     | Group                     | Bank                      | Bank                      |
|---|-------|---------------------------|---------------------------|---------------------------|---------------------------|
|   |       | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 |
|   |       | LVL '000                  | LVL '000                  | LVL '000                  | LVL '000                  |
| Interest income   |       | 18,887                    | 18,572                    | 18,876                    | 18,523                    |
| Interest expense  |       | (8,101)                   | (8,206)                   | (8,114)                   | (8,148)                   |
| <b>Net interest income</b>  |       | <b>10,786</b>             | <b>10,366</b>             | <b>10,762</b>             | <b>10,375</b>             |
| Commission and fee income   |       | 15,153                    | 12,812                    | 13,570                    | 11,173                    |
| Commission and fee expense  |       | (1,836)                   | (1,549)                   | (1,641)                   | (1,346)                   |
| <b>Net commission and fee income</b>  |       | <b>13,317</b>             | <b>11,263</b>             | <b>11,929</b>             | <b>9,827</b>              |
| Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss | 3     | 17                        | (7,415)                   | (24)                      | (7,415)                   |
| Net realised (loss)/ gain from available-for-sale financial assets                          | 3     | (17)                      | 2,659                     | (17)                      | 2,659                     |
| Net realised gain from financial assets at amortised cost                                   | 3     | -                         | 2                         | -                         | 2                         |
| Net result from foreign exchange trading and revaluation                                    | 3     | 7,001                     | 14,140                    | 7,075                     | 14,144                    |
| Other income  |       | 8,127                     | 8,772                     | 685                       | 658                       |
| Income from dividends   |       | 4                         | 1                         | 1,401                     | 707                       |
| Change in allowances for credit losses  | 4     | (8,785)                   | (6,040)                   | (8,795)                   | (6,040)                   |
| <b>Operating income</b>   |       | <b>30,450</b>             | <b>33,748</b>             | <b>23,016</b>             | <b>24,917</b>             |
| Administrative expense  |       | (14,436)                  | (12,825)                  | (11,806)                  | (11,128)                  |
| Depreciation  |       | (994)                     | (836)                     | (737)                     | (779)                     |
| Other expense   |       | (7,823)                   | (8,236)                   | (2,531)                   | (1,885)                   |
| (Loss)/ gain from sale of tangible and intangible fixed assets                              |       | 17                        | (14)                      | 17                        | (14)                      |
| Impairment of financial instruments   |       | (306)                     | (789)                     | (306)                     | (789)                     |
| Impairment of non-financial assets  |       | (135)                     | -                         | (258)                     | (106)                     |
| <b>Total operating expense</b>  |       | <b>(23,677)</b>           | <b>(22,700)</b>           | <b>(15,621)</b>           | <b>(14,701)</b>           |
| Profit before corporate income tax  |       | 6,773                     | 11,048                    | 7,395                     | 10,216                    |
| Corporate income tax  | 5     | (1,869)                   | (1,251)                   | (1,697)                   | (1,087)                   |
| <b>Net profit for the period</b>  |       | <b>4,904</b>              | <b>9,797</b>              | <b>5,698</b>              | <b>9,129</b>              |
| <b>Attributable to:</b>   |       |                           |                           |                           |                           |
| Equity holders of the bank  |       | 5,075                     | 9,915                     |                           |                           |
| Non-controlling interests   |       | (171)                     | (118)                     |                           |                           |
| <b>Other comprehensive income:</b>  |       |                           |                           |                           |                           |
| Changes in fair value revaluation reserve of available-for-sale financial assets            |       | 2,396                     | 955                       | 2,396                     | 955                       |
| Charge to income statement as a result of sale of available-for-sale securities             |       | 17                        | (2,661)                   | 17                        | (2,661)                   |
| Charge to income statement due to recognised impairment of available-for-sale securities    |       | 306                       | 789                       | 306                       | 789                       |
| Change in deferred corporate income tax   |       | (408)                     | 138                       | (408)                     | 138                       |
| <b>Other comprehensive income, total</b>  |       | <b>2,311</b>              | <b>(779)</b>              | <b>2,311</b>              | <b>(779)</b>              |
| <b>Total comprehensive income</b>   |       | <b>7,215</b>              | <b>9,018</b>              | <b>8,009</b>              | <b>8,350</b>              |
| <b>Attributable to:</b>   |       |                           |                           |                           |                           |
| Equity holders of the bank  |       | 7,386                     | 9,136                     |                           |                           |
| Non-controlling interests   |       | (171)                     | (118)                     |                           |                           |
| <b>Earnings per share attributable to the equity holders of the bank, LVL</b>               |       | <b>38.56</b>              | <b>90.14</b>              |                           |                           |



Chairman of the Council  
**Oļegs Fiļš**



Chairman of the Board  
**Ernests Bernis**

Riga, 15 August 2012



## ABLV Bank, AS

### Interim consolidated statements of financial position as at 30 June 2012 and 31 December 2011

|   | Notes | Group            | Group            | Bank             | Bank             |
|---|-------|------------------|------------------|------------------|------------------|
|   |       | 30/06/2012       | 31/12/2011       | 30/06/2012       | 31/12/2011       |
| <b>Assets</b>   |       | LVL '000         | LVL '000         | LVL '000         | LVL '000         |
| Cash and deposits with the Bank of Latvia             |       | 88,855           | 143,663          | 88,855           | 143,663          |
| Balances due from credit institutions                 | 6     | 397,252          | 518,881          | 395,140          | 518,472          |
| Financial assets at fair value through profit or loss |       | 1,907            | 8,922            | 1,907            | 8,922            |
| Shares and other non-fixed income securities          |       | 1,832            | 753              | 1,832            | 753              |
| Derivatives   |       | 75               | 8,169            | 75               | 8,169            |
| Available-for-sale financial assets                   |       | 706,844          | 373,006          | 706,844          | 373,006          |
| Debt securities and other fixed income securities     | 7     | 704,472          | 370,744          | 704,472          | 370,744          |
| Shares and other non-fixed income securities          |       | 2,372            | 2,262            | 2,372            | 2,262            |
| Loans   |       | 459,485          | 469,424          | 459,282          | 470,603          |
| Held-to-maturity investments                          |       | 273,309          | 166,778          | 273,309          | 166,778          |
| Debt securities and other fixed income securities     | 7     | 273,309          | 166,778          | 273,309          | 166,778          |
| Prepaid expense and accrued income                    |       | 742              | 686              | 359              | 335              |
| Investments in subsidiaries and associates            | 8     | 2,269            | 315              | 77,783           | 71,286           |
| Investment properties                                 |       | 21,453           | 21,542           | 16,523           | 16,662           |
| Tangible fixed assets                                 |       | 10,417           | 10,071           | 4,847            | 4,954            |
| Intangible fixed assets                               |       | 3,431            | 3,493            | 3,295            | 3,368            |
| Current corporate income tax receivables              |       | 31               | 15               | -                | -                |
| Deferred corporate income tax                         | 5     | 1,503            | 3,386            | 1,329            | 3,359            |
| Other assets  |       | 63,551           | 58,117           | 8,352            | 7,753            |
| <b>Total assets</b>                                   |       | <b>2,031,049</b> | <b>1,778,299</b> | <b>2,037,825</b> | <b>1,789,161</b> |



Chairman of the Council  
**Oļegs Fiļš**



Chairman of the Board  
**Ernests Bernis**

Riga, 15 August 2012

## ABLV Bank, AS

### Interim consolidated statements of financial position as at 30 June 2012 and 31 December 2011

|   | Notes | Group            | Group            | Bank             | Bank             |
|---|-------|------------------|------------------|------------------|------------------|
|   |       | 30/06/2012       | 31/12/2011       | 30/06/2012       | 31/12/2011       |
|   |       | LVL '000         | LVL '000         | LVL '000         | LVL '000         |
| <b>Liabilities</b>  |       |                  |                  |                  |                  |
| Demand deposits from credit institutions                              |       | 1,595            | 1,779            | 1,202            | 1,779            |
| Financial liabilities at fair value through profit or loss            |       | 172              | 141              | 172              | 141              |
| Derivatives   |       | 172              | 141              | 172              | 141              |
| Term deposits from credit institutions                                |       | 4,134            | 9,167            | 2,230            | 6,699            |
| Deposits  | 9     | 1,839,655        | 1,595,438        | 1,848,408        | 1,603,143        |
| Deferred income and accrued expense                                   |       | 6,893            | 6,121            | 5,945            | 5,182            |
| Current corporate income tax liabilities                              |       | 144              | 173              | -                | -                |
| Other liabilities   |       | 6,632            | 6,798            | 2,598            | 4,123            |
| Deferred corporate income tax   | 5     | 12               | 186              | -                | -                |
| Issued securities   | 10    | 71,487           | 51,507           | 71,487           | 56,258           |
| Subordinated deposits   | 11    | 11,760           | 21,662           | 11,760           | 21,662           |
| <b>Other liabilities</b>  |       | <b>1,942,484</b> | <b>1,692,972</b> | <b>1,943,802</b> | <b>1,698,987</b> |
| <b>Shareholders' equity</b>   |       |                  |                  |                  |                  |
| Paid-in share capital   | 12    | 19,740           | 16,500           | 19,740           | 16,500           |
| Share premium   |       | 18,611           | 5,255            | 18,611           | 5,255            |
| Reserve capital and other reserves                                    |       | 1,500            | 1,500            | 1,500            | 1,500            |
| Fair value revaluation reserve of available-for-sale financial assets |       | (169)            | (2,480)          | (169)            | (2,480)          |
| Retained earnings brought forward                                     |       | 43,294           | 45,180           | 48,643           | 50,293           |
| Retained earnings for the period                                      |       | 5,075            | 18,869           | 5,698            | 19,106           |
| Attributable to the equity holders of the bank                        |       | 88,051           | 84,824           | 94,023           | 90,174           |
| Attributable to non-controlling interests                             |       | 514              | 503              | -                | -                |
| <b>Total shareholders' equity</b>                                     |       | <b>88,565</b>    | <b>85,327</b>    | <b>94,023</b>    | <b>90,174</b>    |
| <b>Total liabilities and shareholders' equity</b>                     |       | <b>2,031,049</b> | <b>1,778,299</b> | <b>2,037,825</b> | <b>1,789,161</b> |
| <b>Memorandum items</b>   |       |                  |                  |                  |                  |
| Funds under trust management  |       | 125,276          | 116,884          | 96,203           | 87,492           |
| Contingent liabilities  |       | 14,831           | 12,055           | 14,831           | 12,055           |
| Financial commitments   |       | 13,909           | 20,940           | 13,909           | 20,940           |

Chairman of the Council  
**Oļegs Fiļs**

Chairman of the Board  
**Ernests Bernis**

Riga, 15 August 2012

**ABLV Bank, AS**  
**Statements of changes in shareholders' equity of the group**  
**for the six-month periods ended 30 June 2012 and 30 June 2011**

**ABLV Bank, AS**  
**Statements of changes in shareholders' equity of the group**  
**for the six-month periods ended 30 June 2012 and 30 June 2011**

|  | Paid-in<br>share<br>capital | Share<br>premium | Reserve<br>capital | Fair value<br>revaluation<br>reserve | Retained<br>earnings | Attributable<br>to the equity<br>holders<br>of the Bank | Non-<br>controlling<br>interests | Total<br>shareholders'<br>equity |
|--|-----------------------------|------------------|--------------------|--------------------------------------|----------------------|---|----------------------------------|----------------------------------|
|  | LVL '000                    | LVL '000         | LVL '000           | LVL '000                             | LVL '000             | LVL '000  | LVL '000                         | LVL '000                         |
| <b>As at 1 January 2011</b>  | <b>16,500</b>               | <b>5,255</b>     | <b>1,500</b>       | <b>1,829</b>                         | <b>45,180</b>        | <b>70,264</b>   | <b>682</b>                       | <b>70,946</b>                    |
| Total comprehensive income for<br>the six-month period ended 30<br>June 2011 | -                           | -                | -                  | (779)                                | 9,915                | 9,136   | (118)                            | 9,018                            |
| Increase of non-controlling<br>interests                                     | -                           | -                | -                  | -                                    | -                    | -   | 1,283                            | 1,283                            |
| <b>As at 30 June 2011</b>  | <b>16,500</b>               | <b>5,255</b>     | <b>1,500</b>       | <b>1,050</b>                         | <b>55,095</b>        | <b>79,400</b>   | <b>1,847</b>                     | <b>81,247</b>                    |
| <b>As at 1 January 2012</b>  | <b>16,500</b>               | <b>5,255</b>     | <b>1,500</b>       | <b>(2,480)</b>                       | <b>64,050</b>        | <b>84,825</b>   | <b>503</b>                       | <b>85,328</b>                    |
| Total comprehensive income for<br>the six-month period ended 30<br>June 2012 | -                           | -                | -                  | 2,311                                | 5,075                | 7,386   | (171)                            | 7,215                            |
| Dividends paid   | -                           | -                | -                  | -                                    | (19,106)             | (19,106)  | -                                | (19,106)                         |
| Issue of personnel shares  | 1,650                       | -                | -                  | -                                    | (1,650)              | -   | -                                | -                                |
| Issue of shares  | 1,590                       | 13,356           | -                  | -                                    | -                    | 14,946  | -                                | 14,946                           |
| Increase of non-controlling<br>interests                                     | -                           | -                | -                  | -                                    | -                    | -   | 182                              | 182                              |
| <b>As at 30 June 2012</b>  | <b>19,740</b>               | <b>18,611</b>    | <b>1,500</b>       | <b>(169)</b>                         | <b>48,369</b>        | <b>88,051</b>   | <b>514</b>                       | <b>88,565</b>                    |

**ABLV Bank, AS**  
**Statements of changes in shareholders' equity of the bank**  
**for the six-month periods ended 30 June 2012 and 30 June 2011**

**ABLV Bank, AS**  
**Statements of changes in shareholders' equity of the bank**  
**for the six-month periods ended 30 June 2012 and 30 June 2011**

|  | Paid-in<br>share<br>capital<br>LVL '000 | Share<br>premium<br>LVL '000 | Reserve<br>capital<br>LVL '000 | Fair value<br>revaluation<br>reserve<br>LVL '000 | Retained<br>earnings<br>LVL '000 | Total<br>shareholders'<br>equity<br>LVL '000 |
|--|---|------------------------------|--------------------------------|--|----------------------------------|--|
| <b>As at 1 January 2011</b>  | <b>16,500</b>                           | <b>5,255</b>                 | <b>1,500</b>                   | <b>1,829</b>                                     | <b>50,293</b>                    | <b>75,377</b>                                |
| Total comprehensive income for the six-month period ended 30 June 2011 | -                                       | -                            | -                              | (779)  | 9,129                            | 8,350  |
| <b>As at 30 June 2011</b>  | <b>16,500</b>                           | <b>5,255</b>                 | <b>1,500</b>                   | <b>1,050</b>                                     | <b>59,422</b>                    | <b>83,727</b>                                |

|  |               |               |              |                |               |               |
|--|---------------|---------------|--------------|----------------|---------------|---------------|
| <b>As at 1 January 2012</b>  | <b>16,500</b> | <b>5,255</b>  | <b>1,500</b> | <b>(2,480)</b> | <b>69,399</b> | <b>90,174</b> |
| Total comprehensive income for the six-month period ended 30 June 2012 | -             | -             | -            | 2,311          | 5,698         | 8,009         |
| Dividends paid   | -             | -             | -            | -              | (19,106)      | (19,106)      |
| Issue of personnel shares  | 1,650         | -             | -            | -              | (1,650)       | -             |
| Issue of shares  | 1,590         | 13,356        | -            | -              | -             | 14,946        |
| <b>As at 30 June 2012</b>  | <b>19,740</b> | <b>18,611</b> | <b>1,500</b> | <b>(169)</b>   | <b>54,341</b> | <b>94,023</b> |

**ABLV Bank, AS**  
**Cash flow statements of the group and the bank**  
**for the six-month periods ended 30 June 2012 and 30 June 2011**

**ABLV Bank, AS**  
**Cash flow statements of the group and the bank for the six-month**  
**periods ended 30 June 2012 and 30 June 2011**

|   | Group                     | Group                     | Bank                      | Bank                      |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 |
|   | LVL '000                  | LVL '000                  | LVL '000                  | LVL '000                  |
| <b>Cash flow from operating activities</b>  |                           |                           |                           |                           |
| Profit before corporate income tax  | 6,773                     | 11,048                    | 7,395                     | 10,216                    |
| Amortisation and depreciation of fixed assets   | 994                       | 836                       | 737                       | 779                       |
| Increase in allowances for credit losses  | 8,785                     | 6,040                     | 8,795                     | 6,040                     |
| Impairment of non-financial assets  | 135                       | -                         | 258                       | 106                       |
| Decrease/ (increase) in financial assets at fair value through profit or loss           | 17                        | (656)                     | 17                        | (656)                     |
| Recognised impairment of available-for-sale financial assets                            | 306                       | 789                       | 306                       | 789                       |
| Increase/ (decrease) in investments in other entities                                   | 182                       | 151                       | -                         | -                         |
| Unrealised (gain) from revaluation of foreign currency positions                        | (193)                     | (7,011)                   | (195)                     | (7,008)                   |
| <b>Net cash flow from operating activities before changes in assets and liabilities</b> | <b>16,999</b>             | <b>11,197</b>             | <b>17,313</b>             | <b>10,266</b>             |
| Decrease/ (increase) in balances due from credit institutions                           | 12,617                    | (121)                     | 14,321                    | (427)                     |
| Decrease in loans   | 2,956                     | 17,246                    | 4,328                     | 15,146                    |
| (Increase)/ decrease in financial assets at fair value through profit or loss           | (1,191)                   | 2,370                     | (1,191)                   | 2,370                     |
| Decrease/ (increase) in prepaid expense and accrued income                              | (56)                      | (58)                      | (24)                      | 18                        |
| (Increase)/ decrease in other assets  | (3)                       | (4,098)                   | 4,806                     | 1,755                     |
| (Decrease) in balances due to credit institutions                                       | (171)                     | (406)                     | -                         | -                         |
| Increase in deposits  | 208,155                   | 86,758                    | 209,203                   | 82,361                    |
| Increase/ (decrease) in financial liabilities at fair value through profit or loss      | 129                       | (88)                      | 129                       | (88)                      |
| Increase in deferred income and accrued expense   | 772                       | 716                       | 763                       | 712                       |
| (Decrease)/ increase in other liabilities   | (668)                     | 1,237                     | (1,535)                   | 1,974                     |
| <b>Net cash flow from operating activities before corporate income tax</b>              | <b>239,539</b>            | <b>114,753</b>            | <b>248,113</b>            | <b>114,087</b>            |
| Corporate income tax (paid)   | (120)                     | (54)                      | -                         | -                         |
| <b>Net cash flow from operating activities</b>  | <b>239,419</b>            | <b>114,699</b>            | <b>248,113</b>            | <b>114,087</b>            |
| <b>Cash flow from investing activities</b>  |                           |                           |                           |                           |
| (Purchase) of held-to-maturity investments  | (106,992)                 | (606)                     | (106,992)                 | (606)                     |
| (Purchase) of available-for-sale financial assets                                       | (557,322)                 | (132,468)                 | (557,322)                 | (132,468)                 |
| Sale of available-for-sale financial assets   | 240,643                   | 108,056                   | 240,643                   | 108,056                   |
| (Purchase) of intangible and tangible fixed assets and investment properties            | (1,293)                   | (3,066)                   | (553)                     | (673)                     |
| Sale of intangible and tangible fixed assets  | 19                        | 61                        | -                         | 61                        |
| (Purchase) of investments in other entities   | (1,954)                   | (304)                     | (6,620)                   | (2,408)                   |
| <b>Net cash flow from investing activities</b>  | <b>(426,899)</b>          | <b>(28,327)</b>           | <b>(430,844)</b>          | <b>(28,038)</b>           |
| <b>Cash flow from financing activities</b>  |                           |                           |                           |                           |
| (Repayment) of subordinated loans   | (9,902)                   | (3,051)                   | (9,902)                   | (3,051)                   |
| (Repayment) of issued securities  | 25,156                    | -                         | 25,156                    | -                         |
| (Repurchase) of issued securities   | (6,306)                   | (463)                     | (11,057)                  | (463)                     |
| Dividends (paid)  | (19,095)                  | -                         | (19,095)                  | -                         |
| <b>Net cash flow from financing activities</b>  | <b>4,799</b>              | <b>(3,514)</b>            | <b>48</b>                 | <b>(3,514)</b>            |
| <b>Net cash flow</b>  | <b>(182,681)</b>          | <b>82,858</b>             | <b>(182,683)</b>          | <b>82,535</b>             |
| <b>Cash and cash equivalents at the beginning of the period</b>                         | <b>636,221</b>            | <b>391,251</b>            | <b>635,812</b>            | <b>391,225</b>            |
| Gain from revaluation of foreign currency positions                                     | 12,702                    | 7,011                     | 12,704                    | 7,008                     |
| <b>Cash and cash equivalents at the end of the period</b>                               | <b>466,242</b>            | <b>481,120</b>            | <b>465,833</b>            | <b>480,768</b>            |
|   | Group                     | Group                     | Bank                      | Bank                      |
|   | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 |
|   | LVL '000                  | LVL '000                  | LVL '000                  | LVL '000                  |
| <b>Operational cash flows from interest and dividends</b>                               |                           |                           |                           |                           |
| Interest received   | 20,103                    | 17,114                    | 20,459                    | 17,401                    |
| Interest paid   | (7,138)                   | (6,900)                   | (7,138)                   | (6,908)                   |
| Dividends received  | 4                         | 1                         | 1,401                     | 707                       |
| Dividends paid  | (19,095)                  | -                         | (19,095)                  | -                         |
|   | Group                     | Group                     | Bank                      | Bank                      |
|   | 30.06.2012                | 30.06.2011                | 30.06.2012                | 30.06.2011                |
|   | LVL '000                  | LVL '000                  | LVL '000                  | LVL '000                  |
| <b>Cash and cash equivalents</b>  |                           |                           |                           |                           |
| Cash and deposits with the Bank of Latvia   | 88,855                    | 72,865                    | 88,855                    | 72,865                    |
| Balances due from credit institutions   | 380,819                   | 410,411                   | 380,410                   | 410,059                   |
| Balances due to credit institutions   | (3,432)                   | (2,156)                   | (3,432)                   | (2,156)                   |
| <b>Total cash and cash equivalents</b>  | <b>466,242</b>            | <b>481,120</b>            | <b>465,833</b>            | <b>480,768</b>            |

Note 1

**General information**

ABLV Bank, AS (hereinafter – the bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company, under unified registration number 50003149401. At present, the legal address of the bank is Elizabetes Street 23, Riga.

The bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the bank to render all the financial services specified in the Law on Credit Institutions.

The group's and bank's main scope of activity is investment services, settlement products, asset management, financial consultations and real estate management.

The group and the bank operate the central office and one lending centre in Riga, as well as foreign representation offices in Azerbaijan – Baku, in Belarus - Minsk, in Kazakhstan - Almaty, in Russia – Moscow, St. Petersburg and Yekaterinburg, in Ukraine – Kyiv with its branch in Odessa, in Uzbekistan - Tashkent and Tajikistan – Dushanbe.

The following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain the financial information about the bank and its subsidiaries (jointly – the group), as well as separately about the bank. The bank's separate financial statements are included in these consolidated financial statements to comply with legal requirements. The bank is the parent of the group.

The consolidated financial statements of the group and the separate financial statements of the bank for the six-month period ended 30 June 2012 were approved by the bank's Board on 15 August 2012.

The group comprises the following subsidiaries:

| No  | Company                             | Country of incorporation | Registration number | Business profile              | Bank's share (% of total share capital) |
|-----|-------------------------------------|--------------------------|---------------------|-------------------------------|---|
| 1.  | ABLV Asset Management, IPAS         | LV                       | 40003814724         | Financial services            | 100                                     |
| 2.  | ABLV Capital Markets, IBAS          | LV                       | 40003814705         | Financial services            | 100                                     |
| 3.  | ABLV Consulting Services, AS        | LV                       | 40003540368         | Consulting services           | 100                                     |
| 4.  | ABLV Corporate Services, SIA        | LV                       | 40103283479         | Consulting services           | 100                                     |
| 5.  | ABLV Corporate Services, LTD        | CY                       | HE273600            | Consulting services           | 100                                     |
| 6.  | ABLV Luxembourg, S.A.               | LU                       | B 162048            | Investment activities         | 100                                     |
| 7.  | ABLV Transform Partnership, KS      | LV                       | 40103260921         | Holding company               | 99.9997                                 |
| 8.  | AB.LV Transform Investments, SIA    | LV                       | 40103191969         | Real estate transactions      | 100                                     |
| 9.  | Transform 1, SIA                    | LV                       | 40103193211         | Real estate transactions      | 100                                     |
| 10. | Transform 2, SIA                    | LV                       | 40103193033         | Real estate transactions      | 100                                     |
| 11. | Transform 3, SIA                    | LV                       | 40103193067         | Real estate transactions      | 100                                     |
| 12. | Transform 4, SIA                    | LV                       | 40103210494         | Real estate transactions      | 100                                     |
| 13. | Transform 6, SIA                    | LV                       | 40103237323         | Real estate transactions      | 100                                     |
| 14. | Transform 7, SIA                    | LV                       | 40103237304         | Real estate transactions      | 100                                     |
| 15. | Transform 8, SIA                    | LV                       | 40103240484         | Real estate transactions      | 100                                     |
| 16. | Transform 9, SIA                    | LV                       | 40103241210         | Real estate transactions      | 100                                     |
| 17. | Transform 10, SIA                   | LV                       | 50103247681         | Real estate transactions      | 100                                     |
| 18. | Transform 11, SIA                   | LV                       | 40103258310         | Real estate transactions      | 100                                     |
| 19. | Transform 12, SIA                   | LV                       | 40103290273         | Real estate transactions      | 100                                     |
| 20. | Transform 13, SIA                   | LV                       | 40103300849         | Real estate transactions      | 100                                     |
| 21. | Transform 14, SIA                   | LV                       | 50103313991         | Real estate transactions      | 100                                     |
| 22. | Transform 17, SIA                   | LV                       | 40103424617         | Real estate transactions      | 100                                     |
| 23. | Transform 18, SIA                   | LV                       | 40103492079         | Real estate transactions      | 100                                     |
| 24. | Elizabetes Park House, SIA          | LV                       | 50003831571         | Real estate transactions      | 91.6                                    |
| 25. | New Hanza City, SIA                 | LV                       | 40103222826         | Real estate transactions      | 100                                     |
| 26. | ABLV Private Equity Management, SIA | LV                       | 40103286757         | Investment project management | 100                                     |
| 27. | ABLV Private Equity Fund 2010, KS   | LV                       | 40103307758         | Investment activities         | 100                                     |
| 28. | Vaiņode Agro Holding, SIA           | LV                       | 40103503851         | Agriculture                   | 100                                     |
| 29. | Vaiņodes Agro, SIA                  | LV                       | 40103484940         | Agriculture                   | 100                                     |
| 30. | Gas Stream, SIA                     | LV                       | 42103047436         | Electricity generation        | 49                                      |
| 31. | Bio Future, SIA                     | LV                       | 42103047421         | Electricity generation        | 49                                      |

## Note 2

### Information on principal accounting policies

These financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. During the six-month period ended 30 June 2012, the bank has consistently applied accounting policies, which are in accordance with IFRS as adopted by the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

#### a) Statement of Compliance

These consolidated and separate financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted by the EU.

The accounting policies are applied consistently by all entities of the group.

During the six-month period ended 30 June 2012, the group and the bank consistently applied accounting policies in line with those disclosed in the prior-period financial statements, except for the changes listed below.

#### Adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting period

In the reporting period, the group/ bank has adopted the following new and amended IFRS and IFRIC interpretations, which do not have a significant impact on the financial statements:

- IFRS 7 Financial Instruments: Disclosures (Amended) - Transfers of financial assets.

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The adoption of this amendment did not affect the group's/ bank's these financial statements because the group/ bank does not have financial assets.

#### Standards issued but not yet effective or not endorsed by the EU and not early adopted

##### IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognizing or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. This amendment has not yet been endorsed by the EU. The Group/ bank is in the process of assessing the impact of this amendment on the financial position or performance of the group/ bank.

##### IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment has not yet been endorsed by the EU. The Group/ bank has assessed that this amendment will not affect its financial position and performance because the group/ bank measure their investment properties according to the cost model.

##### IAS 19 Employee Benefits (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The Group/ bank is in the process of assessing the impact of this amendment on the financial position or performance of the group/ bank.

**IAS 27 Separate Financial Statements (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group/ bank are in the process of assessing the impact of this amendment on the financial position or performance of the group/bank.

**IAS 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group/ bank is in the process of assessing the impact of this amendment on the financial position or performance of the group/ bank.

**IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU. The Group/ bank are in the process of assessing the impact of the amendment on the financial position or performance of the group/ bank.

**IFRS 9 Financial Instruments - Classification and Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group/ bank are in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

**IFRS 10 Consolidated Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard has not yet been endorsed by the EU. The Group/ bank are in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

**IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The Group/ bank is in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

**IFRS 12 Disclosures of Involvement with Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group/ bank are in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.



#### IFRS 13 Fair Value Measurement

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Group/ bank are in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

#### IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (stripping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. The Group/ bank is in the process of assessing the impact of the new interpretation on the financial position or performance of the group/ bank.

The IASB has issued the Annual Improvements to IFRSs 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after 1 January 2013. Earlier application is permitted in all cases, provided that fact is disclosed. This project has not yet been endorsed by the EU. The Group/ bank is in the process of assessing the impact of the project on the financial position or performance of the group/ bank:

- IAS 1 Financial Statement Presentation: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. In addition, the opening statement of financial position (known as the "third balance sheet") must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to accompany the "third balance sheet".
- IAS 16 Property, Plant and Equipment: Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments: Presentation: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.
- IAS 34 Interim Financial Reporting: Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12). The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. The assessment of whether control exists is made at "the date of initial application" rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. This guidance has not yet been endorsed by the EU. The Group/ bank is in the process of assessing the impact of the guidance on the financial position or performance of the group/ bank.

The group/ bank have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets and intangible fixed assets, valuation and depreciation rates of investment properties, calculation of deferred corporate income tax, the ability to maintain the held-to-maturity portfolio, the credit quality cycle (the loan may be categorised as loans in collection twelve months after the first day of delay), determining the allowance for credit losses and the collateral value, and the fair value of financial assets and liabilities. In the reporting period, the credit quality cycle was extended from six to twelve months, which will enable more accurate assessment as to whether the loan may be in collection. The effect of this change in estimates on the extent of allowances for mortgage loans represents an increase in allowances by LVL 3,2 million. In the reporting period, an allowance of LVL 1,7 million was established for the claims against the brokerage firm MF Global. The allowance was supported by estimates based on the public information provided by the audit firm KPMG (the liquidator of MF Global) regarding the potential recoverable amount of assets.

b) Basis of Preparation

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated. These consolidated and separate financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value.

Unless otherwise stated, the monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia, which is the functional and presentation currency of the bank.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the bank's and group's financial statements were as follows:

| Reporting date   | USD   | EUR      | RUB    |
|------------------|-------|----------|--------|
| 30 June 2012     | 0.562 | 0.702804 | 0.0171 |
| 31 December 2011 | 0.544 | 0.702804 | 0.0170 |

Information given herein in brackets represents comparative figures as at 31 December 2011 or for the six-month period ended 30 June 2011, unless otherwise stated.

As described in the Report of the Council and the Board (pages 3 to 5), considering the current economic situation, the management of the bank has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. Accordingly, these consolidated and separate financial statements for the six-month period ended 30 June 2012 are prepared on a going concern basis, consistently applying IFRS as adopted by the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies and Investment Management Companies.

Note 3

**Net gains/ losses on financial assets**

|   | Group<br>01/01/2012-<br>30/06/2012 | Group<br>01/01/2011-<br>30/06/2011 | Bank<br>01/01/2012-<br>30/06/2012 | Bank<br>01/01/2011-<br>30/06/2011 |
|---|------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
|   | LVL '000                           | LVL '000                           | LVL '000                          | LVL '000                          |
| <b>Financial instruments at fair value through profit or loss</b>                           |                                    |                                    |                                   |                                   |
| (Loss)/ gain from revaluation of financial instruments at fair value through profit or loss | 24                                 | 656                                | (17)                              | 656                               |
| Derivatives   | 10                                 | 773                                | 10                                | 773                               |
| Securities  | 14                                 | (117)                              | (27)                              | (117)                             |
| (Loss)/ gain from trading with financial instruments at fair value through profit or loss   | (7)                                | (8,071)                            | (7)                               | (8,071)                           |
| Derivatives   | (9)                                | (8,330)                            | (9)                               | (8,330)                           |
| Securities  | 2                                  | 259                                | 2                                 | 259                               |
| <b>Net (loss)/ gain from financial instruments at fair value through profit or loss</b>     | <b>17</b>                          | <b>(7,415)</b>                     | <b>(24)</b>                       | <b>(7,415)</b>                    |
| <b>Available-for-sale financial instruments</b>   |                                    |                                    |                                   |                                   |
| Gain from sale of available-for-sale securities   | (17)                               | 2,659                              | (17)                              | 2,659                             |
| <b>Net realised gain from available-for-sale financial instruments</b>                      | <b>(17)</b>                        | <b>2,659</b>                       | <b>(17)</b>                       | <b>2,659</b>                      |
| <b>Financial instruments at amortised cost</b>  |                                    |                                    |                                   |                                   |
| Gain/ (loss) from sale of securities of the loans and receivables portfolio                 | -                                  | 2                                  | -                                 | 2                                 |
| <b>Net realised gain/ (loss) from sale of financial instruments at amortised cost</b>       | <b>-</b>                           | <b>2</b>                           | <b>-</b>                          | <b>2</b>                          |
| <b>Foreign exchange</b>   |                                    |                                    |                                   |                                   |
| Profit from foreign currency exchange   | 6,808                              | 7,129                              | 6,880                             | 7,135                             |
| Gain/ (loss) from revaluation of foreign currency positions                                 | 193                                | 7,011                              | 195                               | 7,009                             |
| <b>Net result from foreign exchange trading and revaluation</b>                             | <b>7,001</b>                       | <b>14,140</b>                      | <b>7,075</b>                      | <b>14,144</b>                     |

Note 4

**Allowances for credit losses**

The table below presents changes in allowances for credit losses of the group for the six-month period ended 30 June 2012:

|  | Mortgage loans | Business loans | Consumer loans | Other loans  | Available-for-sale securities | Held-to-maturity securities | Other assets | Total         |
|--|----------------|----------------|----------------|--------------|-------------------------------|-----------------------------|--------------|---------------|
|  | LVL '000       | LVL '000       | LVL '000       | LVL '000     | LVL '000                      | LVL '000                    | LVL '000     | LVL '000      |
| Individual allowances  | 1,570          | 14,190         | -              | 694          | 120                           | 972                         | 370          | 17,916        |
| Portfolio allowances   | 41,387         | 163            | 63             | 597          | -                             | -                           | -            | 42,210        |
| <b>Total allowances at the beginning of the period</b>             | <b>42,957</b>  | <b>14,353</b>  | <b>63</b>      | <b>1,291</b> | <b>120</b>                    | <b>972</b>                  | <b>370</b>   | <b>60,126</b> |
| Increase/ (decrease) in allowances for the period                  | 7,755          | (727)          | 20             | (65)         | -                             | 4                           | 1,798        | 8,785         |
| Recovery of write-offs/ asset write-off (expense) for the period   | -              | -              | -              | -            | -                             | -                           | (118)        | (118)         |
| Increase in allowances for the period due to currency fluctuations | 11             | 17             | -              | -            | 4                             | 33                          | 23           | 88            |
| (Elimination) of allowances for the period due to write-offs       | (9,112)        | (3,581)        | (12)           | (31)         | -                             | -                           | -            | (12,736)      |
| Individual allowances  | 961            | 9,710          | -              | 385          | 124                           | 1,009                       | 2,073        | 14,262        |
| Portfolio allowances   | 40,650         | 352            | 71             | 810          | -                             | -                           | -            | 41,883        |
| <b>Total allowances at the end of the period</b>                   | <b>41,611</b>  | <b>10,062</b>  | <b>71</b>      | <b>1,195</b> | <b>124</b>                    | <b>1,009</b>                | <b>2,073</b> | <b>56,145</b> |

The table below presents changes in allowances for credit losses of the bank for the six-month period ended 30 June 2012:

|  | Mortgage loans | Business loans | Consumer loans | Other loans  | Available-for-sale securities | Held-to-maturity securities | Other assets | Total         |
|--|----------------|----------------|----------------|--------------|-------------------------------|-----------------------------|--------------|---------------|
|  | LVL '000       | LVL '000       | LVL '000       | LVL '000     | LVL '000                      | LVL '000                    | LVL '000     | LVL '000      |
| Individual allowances  | 1,570          | 14,364         | -              | 694          | 120                           | 972                         | 343          | 18,063        |
| Portfolio allowances   | 41,387         | 163            | 63             | 597          | -                             | -                           | -            | 42,210        |
| <b>Total allowances at the beginning of the period</b>             | <b>42,957</b>  | <b>14,527</b>  | <b>63</b>      | <b>1,291</b> | <b>120</b>                    | <b>972</b>                  | <b>343</b>   | <b>60,273</b> |
| Increase/ (decrease) in allowances for the period                  | 7,754          | (716)          | 20             | (65)         | -                             | 4                           | 1,798        | 8,795         |
| (Recovery) of write-offs/ asset write-off expense for the period   | -              | -              | -              | -            | -                             | -                           | (118)        | (118)         |
| Increase in allowances for the period due to currency fluctuations | 11             | 17             | -              | -            | 4                             | 33                          | 23           | 88            |
| (Elimination) of allowances for the period due to write-offs       | (9,111)        | (3,581)        | (12)           | (31)         | -                             | -                           | -            | (12,735)      |
| Individual allowances  | 961            | 9,895          | -              | 385          | 124                           | 1,009                       | 2,046        | 14,420        |
| Portfolio allowances   | 40,650         | 352            | 71             | 810          | -                             | -                           | -            | 41,883        |
| <b>Total allowances at the end of the period</b>                   | <b>41,611</b>  | <b>10,247</b>  | <b>71</b>      | <b>1,195</b> | <b>124</b>                    | <b>1,009</b>                | <b>2,046</b> | <b>56,303</b> |

The table below presents changes in allowances for credit losses of the group and the bank during the six-month period ended 30 June 2011:

|  | Mortgage<br>loans | Business<br>loans | Consumer<br>loans | Other loans | Available-for-<br>sale<br>securities | Held-to-<br>maturity<br>securities | Loans and<br>receivables | Other<br>assets | Total         |
|--|-------------------|-------------------|-------------------|-------------|--------------------------------------|------------------------------------|--------------------------|-----------------|---------------|
|  | LVL '000          | LVL '000          | LVL '000          | LVL '000    | LVL '000                             | LVL '000                           | LVL '000                 | LVL '000        | LVL '000      |
| Individual allowances  | 2,417             | 17,842            | 26                | -           | 64                                   | 78                                 | 1,202                    | 605             | 22,234        |
| Portfolio allowances   | 44,242            | 129               | 210               | 568         | -                                    | -                                  | -                        | -               | 45,149        |
| <b>Total allowances at the beginning of the period</b>             | <b>46,659</b>     | <b>17,971</b>     | <b>236</b>        | <b>568</b>  | <b>64</b>                            | <b>78</b>                          | <b>1,202</b>             | <b>605</b>      | <b>67,383</b> |
| Increase/ (decrease) in allowances for the period                  | 5,336             | 147               | 87                | 312         | 78                                   | 64                                 | -                        | 16              | 6,040         |
| Recovery of write-offs/ asset write-off (expense) for the period   | -                 | -                 | -                 | -           | -                                    | -                                  | -                        | 27              | 27            |
| Increase in allowances for the period due to currency fluctuations | (15)              | (55)              | -                 | -           | (5)                                  | (7)                                | -                        | -               | (82)          |
| (Elimination) of allowances for the period due to write-offs       | (8,825)           | (2,649)           | (210)             | (505)       | -                                    | -                                  | (1,202)                  | (71)            | (13,462)      |
| Individual allowances  | 1,666             | 15,160            | 33                | 176         | 137                                  | 135                                | -                        | 577             | 17,884        |
| Portfolio allowances   | 41,489            | 254               | 80                | 199         | -                                    | -                                  | -                        | -               | 42,022        |
| <b>Total allowances at the end of the period</b>                   | <b>43,155</b>     | <b>15,414</b>     | <b>113</b>        | <b>375</b>  | <b>137</b>                           | <b>135</b>                         | <b>-</b>                 | <b>577</b>      | <b>59,906</b> |

## Note 5

### Taxation

|   | Group                     | Group                     | Bank                      | Bank                      |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 | 01/01/2012-<br>30/06/2012 | 01/01/2011-<br>30/06/2011 |
|   | LVL'000                   | LVL'000                   | LVL'000                   | LVL'000                   |
| Profit before corporate income tax                                  | 6,773                     | 11,048                    | 7,395                     | 10,216                    |
| <b>Theoretical corporate income tax</b>                             | <b>1,016</b>              | <b>1,657</b>              | <b>1,110</b>              | <b>1,532</b>              |
| Permanent differences   | 788                       | (477)                     | 482                       | (516)                     |
| <b>Actual corporate income tax expense for the reporting period</b> | <b>1,804</b>              | <b>1,180</b>              | <b>1,592</b>              | <b>1,016</b>              |
| Adjustments to prior-year deferred tax                              | (10)                      | 38                        | 30                        | 38                        |
| Tax paid abroad   | 75                        | 33                        | 75                        | 33                        |
| <b>Total corporate income tax expense</b>                           | <b>1,869</b>              | <b>1,251</b>              | <b>1,697</b>              | <b>1,087</b>              |

Deferred corporate income tax calculation:

|  | Group                                    |  | Bank                                     |  |
|--|--|--|--|--|
|  | 30.06.2012                               | 31.12.2011                               | 30.06.2012                               | 31.12.2011                               |
|  | Amounts subject to temporary differences | Amounts subject to temporary differences | Amounts subject to temporary differences | Amounts subject to temporary differences |
|  | LVL'000                                  | LVL'000                                  | LVL'000                                  | LVL'000                                  |
| Accumulated excess of tax depreciation over accounting depreciation              | 5,173                                    | 4,943                                    | 3,790                                    | 3,604                                    |
| Fair value revaluation reserve of available-for-sale financial assets            | (199)                                    | (2,917)                                  | (199)                                    | (2,917)                                  |
| Revaluation of derivatives and securities  | 240                                      | 5,220                                    | 240                                      | 5,397                                    |
| Revaluation of assets and vacation pay reserve                                   | (6,175)                                  | (3,399)                                  | (1,573)                                  | (1,463)                                  |
| Deferred tax asset on intra-group transactions                                   | (2,235)                                  | (2,235)                                  | -  | -  |
| Tax losses   | (14,484)                                 | (28,832)                                 | (11,113)                                 | (27,012)                                 |
| Unrecognised tax asset   | 7,742                                    | 5,888                                    | -  | -  |
| <b>Basis for calculation of deferred corporate income tax</b>                    | <b>(9,938)</b>                           | <b>(21,332)</b>                          | <b>(8,855)</b>                           | <b>(22,391)</b>                          |
| Tax rate   | 15%                                      | 15%                                      | 15%                                      | 15%                                      |
| <b>Deferred corporate income tax (asset)/ liability at the end of the period</b> | <b>(1,503)</b>                           | <b>(3,386)</b>                           | <b>(1,329)</b>                           | <b>(3,359)</b>                           |
|  | <b>12</b>                                | <b>186</b>                               | <b>-</b>                                 | <b>-</b>                                 |

|  | Group                 |                       | Bank                  |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 01/01/2012-30/06/2012 | 01/01/2011-30/06/2011 | 01/01/2012-30/06/2012 | 01/01/2011-30/06/2011 |
|  | LVL'000               | LVL'000               | LVL'000               | LVL'000               |
| <b>Deferred corporate income tax at the beginning of the period</b>              | <b>(3,386)</b>        | <b>(5,736)</b>        | <b>(3,359)</b>        | <b>(5,718)</b>        |
|  | <b>186</b>            | <b>21</b>             | <b>-</b>              | <b>-</b>              |
| Increase charged to the statement of comprehensive income                        | 1,604                 | 1,016                 | 1,592                 | 1,016                 |
| Increase/ (decrease) attributable to fair value revaluation reserve under equity | 408                   | (138)                 | 408                   | (138)                 |
| Adjustments attributable to prior period profit or loss                          | (293)                 | -                     | -                     | -                     |
| Adjustment for the previous periods  | (10)                  | 29                    | 30                    | 39                    |
| <b>Deferred corporate income tax (asset)/ liability at the end of the period</b> | <b>(1,503)</b>        | <b>(4,829)</b>        | <b>(1,329)</b>        | <b>(4,801)</b>        |
|  | <b>12</b>             | <b>21</b>             | <b>-</b>              | <b>-</b>              |

The group's and bank's management believe that there is reasonable confidence that future taxable profit will be sufficient to fully recover the recognised deferred tax asset in the taxation periods following the reporting period.

Note 6

**Balances due from credit institutions**

As at 30 June 2012, the bank had established correspondent relationships with 27 (27) credit institutions registered in the EU and OECD area, 7 (7) credit institutions registered in Latvia, and 16 (19) credit institutions incorporated in other countries.

Balances due from credit institutions to the group by geographical area and structure as at 30 June 2012:

|  | Latvia     | EMU countries  | Other EU Member States | Other OECD countries | Other countries | Total          |
|--|------------|----------------|------------------------|----------------------|-----------------|----------------|
|  | LVL'000    | LVL'000        | LVL'000                | LVL'000              | LVL'000         | LVL'000        |
| <b>Demand deposits with credit institutions</b>          |            |                |                        |                      |                 |                |
| Correspondent account balances                           | 550        | 58,634         | 11,700                 | 83,959               | 19,047          | 173,890        |
| Overnight deposits                                       | 141        | 50,587         | 56,200                 | 16,860               | 21,004          | 144,792        |
| <b>Total demand deposits with credit institutions</b>    | <b>691</b> | <b>109,221</b> | <b>67,900</b>          | <b>100,819</b>       | <b>40,051</b>   | <b>318,682</b> |
| <b>Other balances due from credit institutions</b>       |            |                |                        |                      |                 |                |
| Security deposits  | -          | 322            | 11,652                 | 3,034                | -               | 15,008         |
| Term deposits  | -          | 1,722          | 28,101                 | 28,100               | -               | 57,923         |
| Other balances   | -          | -              | -                      | -                    | 5,639           | 5,639          |
| <b>Total other balances due from credit institutions</b> | <b>-</b>   | <b>2,044</b>   | <b>39,753</b>          | <b>31,134</b>        | <b>5,639</b>    | <b>78,570</b>  |
| <b>Total balances due from credit institutions</b>       | <b>691</b> | <b>111,265</b> | <b>107,653</b>         | <b>131,953</b>       | <b>45,690</b>   | <b>397,252</b> |

As at 30 June 2012, the group's and bank's major balances due from credit institutions registered in the EU and OECD area were as follows: LVL 58 (42) million due from the Bank of Montreal, LVL 56 (39) million due from UBS AG, LVL 47 (63) million due from Credit Suisse, and LVL 46 (60) million due from Nordea Bank Finland Plc.

Balances due from credit institutions to the group by geographical area and structure as at 31 December 2011:

|  | Latvia     | EMU countries  | Other EU Member States | Other OECD countries | Other countries | Total          |
|--|------------|----------------|------------------------|----------------------|-----------------|----------------|
|  | LVL'000    | LVL'000        | LVL'000                | LVL'000              | LVL'000         | LVL'000        |
| <b>Demand deposits with credit institutions</b>          |            |                |                        |                      |                 |                |
| Correspondent account balances                           | 534        | 183,567        | 3,275                  | 162,416              | 35,567          | 385,359        |
| <b>Total demand deposits with credit institutions</b>    | <b>534</b> | <b>183,567</b> | <b>3,275</b>           | <b>162,416</b>       | <b>35,567</b>   | <b>385,359</b> |
| <b>Other balances due from credit institutions</b>       |            |                |                        |                      |                 |                |
| Security deposits  | -          | 7,239          | -                      | 10,880               | -               | 18,119         |
| Term deposits  | -          | 29,924         | 67,234                 | -                    | 5,102           | 102,260        |
| Other balances   | -          | -              | -                      | -                    | 13,143          | 13,143         |
| <b>Total other balances due from credit institutions</b> | <b>-</b>   | <b>37,163</b>  | <b>67,234</b>          | <b>10,880</b>        | <b>18,245</b>   | <b>133,522</b> |
| <b>Total balances due from credit institutions</b>       | <b>534</b> | <b>220,730</b> | <b>70,509</b>          | <b>173,296</b>       | <b>53,812</b>   | <b>518,881</b> |

Balances due from credit institutions to the bank by geographical area and structure as at 30 June 2012:

|  | Latvia     | EMU countries  | Other EU Member States | Other OECD countries | Other countries | Total          |
|--|------------|----------------|------------------------|----------------------|-----------------|----------------|
|  | LVL'000    | LVL'000        | LVL'000                | LVL'000              | LVL'000         | LVL'000        |
| <b>Demand deposits with credit institutions</b>          |            |                |                        |                      |                 |                |
| Correspondent account balances                           | 550        | 58,567         | 11,700                 | 83,959               | 19,002          | 173,778        |
| Overnight deposits                                       | 141        | 50,587         | 56,200                 | 16,860               | 21,004          | 144,792        |
| <b>Total demand deposits with credit institutions</b>    | <b>691</b> | <b>109,154</b> | <b>67,900</b>          | <b>100,819</b>       | <b>40,006</b>   | <b>318,570</b> |
| <b>Other balances due from credit institutions</b>       |            |                |                        |                      |                 |                |
| Security deposits  | -          | 44             | 11,652                 | 3,034                | -               | 14,730         |
| Term deposits  | -          | -              | 28,101                 | 28,100               | -               | 56,201         |
| Other balances   | -          | -              | -                      | -                    | 5,639           | 5,639          |
| <b>Total other balances due from credit institutions</b> | <b>-</b>   | <b>44</b>      | <b>39,753</b>          | <b>31,134</b>        | <b>5,639</b>    | <b>76,570</b>  |
| <b>Total balances due from credit institutions</b>       | <b>691</b> | <b>109,198</b> | <b>107,653</b>         | <b>131,953</b>       | <b>45,645</b>   | <b>395,140</b> |

Balances due from credit institutions to the bank by geographical area and structure as at 31 December 2011:

|  | Latvia     | EMU countries  | Other EU Member States | Other OECD countries | Other countries | Total          |
|--|------------|----------------|------------------------|----------------------|-----------------|----------------|
|  | LVL'000    | LVL'000        | LVL'000                | LVL'000              | LVL'000         | LVL'000        |
| <b>Demand deposits with credit institutions</b>          |            |                |                        |                      |                 |                |
| Correspondent account balances                           | 500        | 183,491        | 3,275                  | 162,416              | 35,545          | 385,227        |
| <b>Total demand deposits with credit institutions</b>    | <b>500</b> | <b>183,491</b> | <b>3,275</b>           | <b>162,416</b>       | <b>35,545</b>   | <b>385,227</b> |
| <b>Other balances due from credit institutions</b>       |            |                |                        |                      |                 |                |
| Security deposits  | -          | 6,962          | -                      | 10,880               | -               | 17,842         |
| Term deposits  | -          | 29,924         | 67,234                 | -                    | 5,102           | 102,260        |
| Other balances   | -          | -              | -                      | -                    | 13,143          | 13,143         |
| <b>Total other balances due from credit institutions</b> | <b>-</b>   | <b>36,886</b>  | <b>67,234</b>          | <b>10,880</b>        | <b>18,245</b>   | <b>133,245</b> |
| <b>Total balances due from credit institutions</b>       | <b>500</b> | <b>220,377</b> | <b>70,509</b>          | <b>173,296</b>       | <b>53,790</b>   | <b>518,472</b> |



Note 7

**Debt securities and other fixed income securities**

The group's and bank's investments in debt securities are classified by the investment type as follows:

| Issuer                                | Group/ Bank<br>30/06/2012 |                  |                | Group/ Bank<br>31/12/2011 |                  |                |
|---------------------------------------|---------------------------|------------------|----------------|---------------------------|------------------|----------------|
|                                       | Available-for-sale        | Held-to-maturity | Total          | Available-for-sale        | Held-to-maturity | Total          |
|                                       | LVL'000                   | LVL'000          | LVL'000        | LVL'000                   | LVL'000          | LVL'000        |
| <b>Latvia</b>                         |                           |                  |                |                           |                  |                |
| Central governments                   | 15                        | 23,430           | 23,445         | -                         | 5,870            | 5,870          |
| Municipalities                        | -                         | 180              | 180            | -                         | -                | -              |
| Credit institutions                   | -                         | 176              | 176            | 15                        | 176              | 191            |
| <b>International organisations</b>    | <b>71,842</b>             | <b>26,866</b>    | <b>98,708</b>  | <b>71,555</b>             | <b>26,188</b>    | <b>97,743</b>  |
| <b>EU Member States</b>               |                           |                  |                |                           |                  |                |
| Central governments                   | 82,381                    | 17,018           | 99,399         | 55,694                    | 13,215           | 68,909         |
| Credit institutions                   | 110,583                   | 38,549           | 149,132        | 92,608                    | 3,101            | 95,709         |
| Corporate companies                   | -                         | 522              | 522            | -                         | -                | -              |
| <b>Other OECD countries</b>           |                           |                  |                |                           |                  |                |
| Central governments                   | 312,704                   | 18,835           | 331,539        | 48,036                    | 15,480           | 63,516         |
| Credit institutions                   | 40,511                    | 15,243           | 55,754         | 23,363                    | 2,861            | 26,224         |
| Municipalities                        | -                         | 23,350           | 23,350         | -                         | -                | -              |
| State-owned enterprises               | 19,937                    | 5,713            | 25,650         | 19,422                    | 5,542            | 24,964         |
| Financial auxiliary                   | 4,359                     | -                | 4,359          | 2,209                     | -                | 2,209          |
| <b>Other countries</b>                |                           |                  |                |                           |                  |                |
| Central governments and central banks | 13,997                    | 20,152           | 34,149         | 14,175                    | 18,733           | 32,908         |
| Municipalities                        | 761                       | 547              | 1,308          | 801                       | 528              | 1,329          |
| Financial auxiliary                   | 37                        | -                | 37             | 91                        | -                | 91             |
| Credit institutions                   | 25,921                    | 35,132           | 61,053         | 23,858                    | 32,299           | 56,157         |
| Corporate companies                   | 21,424                    | 47,596           | 69,020         | 18,917                    | 42,785           | 61,702         |
| <b>Net fixed income securities</b>    | <b>704,472</b>            | <b>273,309</b>   | <b>977,781</b> | <b>370,744</b>            | <b>166,778</b>   | <b>537,522</b> |

The group's/ bank's fixed income securities totalled LVL 977.8 (537.5) million as at 30 June 2012. Most of these assets – 94.0% (88.6%) - have been invested by the bank in investment-grade securities (rated at least BBB-). The bank has no investments in securities issued by the central governments of the European countries that are still struggling to solve their financial and budget problems, such as Greece, Ireland, Spain and Italy, except for an insignificant investment of LVL 231 thousand made in the securities of the Portuguese central government.

In the reporting period, the annual yield of the bank's securities portfolio was 2.4% (3.9%).

Most significant investments of the group and the bank in debt securities are as follows:

| Issuer                             | Group/ Bank<br>30/06/2012 |                  |                | Group/ Bank<br>31/12/2011 |                  |                |
|------------------------------------|---------------------------|------------------|----------------|---------------------------|------------------|----------------|
|                                    | Available-for-sale        | Held-to-maturity | Total          | Available-for-sale        | Held-to-maturity | Total          |
|                                    | LVL'000                   | LVL'000          | LVL'000        | LVL'000                   | LVL'000          | LVL'000        |
| <b>USA</b>                         |                           |                  |                |                           |                  |                |
| Central government                 | 288,554                   | -                | 288,554        | 27,361                    | -                | 27,361         |
| Other                              | 4,359                     | -                | 4,359          | 2,206                     | -                | 2,206          |
| <b>Total</b>                       | <b>292,913</b>            | <b>-</b>         | <b>292,913</b> | <b>29,567</b>             | <b>-</b>         | <b>29,567</b>  |
| <b>Russia</b>                      |                           |                  |                |                           |                  |                |
| Central government                 | 10,022                    | 17,487           | 27,509         | 10,722                    | 17,469           | 28,191         |
| Other                              | 39,702                    | 73,821           | 113,523        | 32,156                    | 67,063           | 99,219         |
| <b>Total</b>                       | <b>49,724</b>             | <b>91,308</b>    | <b>141,032</b> | <b>42,878</b>             | <b>84,532</b>    | <b>127,410</b> |
| <b>Canada</b>                      |                           |                  |                |                           |                  |                |
| Central government                 | 16,554                    | 15,862           | 32,416         | 16,116                    | 15,480           | 31,596         |
| Other                              | 60,448                    | 29,063           | 89,511         | 23,413                    | 5,542            | 28,955         |
| <b>Total</b>                       | <b>77,002</b>             | <b>44,925</b>    | <b>121,927</b> | <b>39,529</b>             | <b>21,022</b>    | <b>60,551</b>  |
| <b>Germany</b>                     |                           |                  |                |                           |                  |                |
| Central government                 | 14,252                    | 7,137            | 21,389         | 13,771                    | 7,161            | 20,932         |
| Other                              | 74,989                    | 8,627            | 83,616         | 49,307                    | 2,926            | 52,233         |
| <b>Total</b>                       | <b>89,241</b>             | <b>15,764</b>    | <b>105,005</b> | <b>63,078</b>             | <b>10,087</b>    | <b>73,165</b>  |
| <b>Sweden</b>                      |                           |                  |                |                           |                  |                |
| Central government                 | 46,156                    | -                | 46,156         | 28,456                    | -                | 28,456         |
| Other                              | 7,830                     | 5,835            | 13,665         | 17,029                    | -                | 17,029         |
| <b>Total</b>                       | <b>53,986</b>             | <b>5,835</b>     | <b>59,821</b>  | <b>45,485</b>             | <b>-</b>         | <b>45,485</b>  |
| <b>Latvia</b>                      |                           |                  |                |                           |                  |                |
| Central government                 | 15                        | 23,430           | 23,445         | -                         | 5,870            | 5,870          |
| Other                              | -                         | 356              | 356            | 15                        | 176              | 191            |
| <b>Total</b>                       | <b>15</b>                 | <b>23,786</b>    | <b>23,801</b>  | <b>15</b>                 | <b>6,046</b>     | <b>6,061</b>   |
| <b>International organisations</b> | <b>71,842</b>             | <b>26,866</b>    | <b>98,708</b>  | <b>71,555</b>             | <b>26,188</b>    | <b>97,743</b>  |
| <b>Other countries</b>             | <b>362,662</b>            | <b>64,825</b>    | <b>427,487</b> | <b>78,637</b>             | <b>18,903</b>    | <b>97,540</b>  |
| <b>Net securities portfolio</b>    | <b>704,472</b>            | <b>273,309</b>   | <b>977,781</b> | <b>370,744</b>            | <b>166,778</b>   | <b>537,522</b> |

Note 8

**Investments in subsidiaries**

As at 30 June 2012 the bank held shares in the following subsidiaries:

| Company   | Country of incorporation | 30/06/2012    |               | 31/12/2011                              |               |               |   |
|---|--------------------------|---------------|---------------|---|---------------|---------------|---|
|   |                          | Share capital | Equity        | Bank's share (% of total share capital) | Share capital | Equity        | Bank's share (% of total share capital) |
|   |                          | LVL'000       | LVL'000       | (%)                                     | LVL'000       | LVL'000       | (%)                                     |
| ABLV Transform Partnership, KS                          | LV                       | 63,252        | 58,490        | 99.9997                                 | 56,224        | 51,986        | 99.9997                                 |
| ABLV Private Equity Fund 2010, KS                       | LV                       | 7,028         | 7,060         | 100                                     | 7,028         | 6,904         | 100                                     |
| ABLV Luxembourg, S.A.                                   | LU                       | 3,163         | 2,578         | 100                                     | 1,406         | 1,331         | 100                                     |
| New Hanza City, SIA                                     | LV                       | 2,900         | 2,855         | 100                                     | 2,900         | 2,861         | 100                                     |
| Transform 1, SIA  | LV                       | 500           | 33            | 100                                     | 500           | 124           | 100                                     |
| ABLV Consulting services, AS                            | LV                       | 500           | 471           | 100                                     | 375           | 402           | 100                                     |
| ABLV Capital Markets, IBAS                              | LV                       | 400           | 1,088         | 100                                     | 400           | 1,602         | 100                                     |
| ABLV Asset Management, IPAS                             | LV                       | 400           | 394           | 100                                     | 400           | 594           | 100                                     |
| ABLV Private Equity Mangement, SIA                      | LV                       | 120           | 151           | 100                                     | 120           | 132           | 100                                     |
| ABLV Corporate Services, SIA                            | LV                       | 20            | 103           | 100                                     | 20            | 44            | 100                                     |
| Elizabetes Park House, SIA (former Elizabetes 21a, SIA) | LV                       | -             | -             | -                                       | 2,500         | 1,677         | 91.6                                    |
| <b>Total, gross</b>                                     |                          | <b>78,283</b> | <b>73,223</b> |   | <b>71,873</b> | <b>67,657</b> |   |
| Impairment expense                                      |                          | (500)         |               |   | (377)         |               |   |
| <b>Total, net</b>                                       |                          | <b>77,783</b> |               |   | <b>71,496</b> |               |   |

During the reporting period, the bank increased its investment in the share capital of ABLV Transform Partnership, KS by EUR 10 million. The bank also increased the share capital of ABLV Consulting Services, AS and ABLV Luxembourg, S.A. by LVL 125 thousand and EUR 2.5 million respectively. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development. In the reporting period, within the framework of the effective restructuring of the ABLV group, the subsidiary Elizabetes Park House, SIA was included in the ABLV Transform Partnership, KS group which is engaged in real estate takeover, management, development, preparation for sale and ultimate sale.

As at 30 June 2012, funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation amounted to LVL 29,073 (29,392) thousand. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 30 June 2012 was LVL 288,825 (253,693) thousand.

Note 9

**Deposits**

| Customer profile                                    | Group            |                  | Bank             |                  |
|---|------------------|------------------|------------------|------------------|
|   | 30/06/2012       | 31/12/2011       | 30/06/2012       | 31/12/2011       |
|   | LVL'000          | LVL'000          | LVL'000          | LVL'000          |
| Corporate companies                                 | 1,631,054        | 1,410,294        | 1,638,619        | 1,418,181        |
| Private individuals                                 | 205,316          | 174,165          | 205,316          | 173,983          |
| Financial institutions                              | 1,694            | 4,785            | 2,882            | 4,785            |
| Non-profit institutions serving private individuals | 1,554            | 1,841            | 1,554            | 1,841            |
| Municipalities                                      | 37               | 22               | 37               | 22               |
| State-owned enterprises                             | -                | 4,331            | -                | 4,331            |
| <b>Total deposits</b>                               | <b>1,839,655</b> | <b>1,595,438</b> | <b>1,848,408</b> | <b>1,603,143</b> |

|   | Group            |                  | Bank             |                  |
|---|------------------|------------------|------------------|------------------|
|   | 30/06/2012       | 31/12/2011       | 30/06/2012       | 31/12/2011       |
|   | LVL'000          | LVL'000          | LVL'000          | LVL'000          |
| <b>Geographical profile of customer residence</b> |                  |                  |                  |                  |
| Other countries                                   | 1,183,992        | 1,056,560        | 1,183,993        | 1,056,560        |
| Other EU Member States                            | 351,215          | 318,820          | 351,215          | 318,820          |
| EMU countries                                     | 209,305          | 105,442          | 209,623          | 106,252          |
| Latvia  | 59,661           | 59,567           | 68,095           | 66,462           |
| Other OECD countries                              | 35,482           | 55,049           | 35,482           | 55,049           |
| <b>Total deposits</b>                             | <b>1,839,655</b> | <b>1,595,438</b> | <b>1,848,408</b> | <b>1,603,143</b> |

Of the total deposits placed with the group and the bank, 86.9% (85.8%) are from customers whose beneficiaries are CIS residents.

## Note 10

### Issued securities

The bank carried out several securities issues, pursuing the strategic goal to replace long-term deposits with customer bond investments, which will bring higher yields to customers as compared to deposits. As opposed to deposits, bonds are more liquid financial instruments that offer greater advantages to customers for their wider use in transactions.

| Type                             | ISIN         | Currency | Number  | Par value | Date of maturity | Discount/ coupon rate | Group/ Bank   |               | Group         | Bank          |
|----------------------------------|--------------|----------|---------|-----------|------------------|-----------------------|---------------|---------------|---------------|---------------|
|                                  |              |          |         |           |                  |                       | 30/06/2012    | 31/12/2011    | 31/12/2011    |               |
|                                  |              |          |         |           |                  |                       | LVL'000       | LVL'000       | LVL'000       | LVL'000       |
| Subordinated discount bonds      | LV0000800712 | EUR      | 125,000 | 100       | 01/10/2018       | 10.0%                 | 7,774         | 7,404         | 7,404         | 7,404         |
| Subordinated discount bonds      | LV0000800936 | EUR      | 150,000 | 100       | 22/12/2021       | 4.8%                  | 8,525         | 7,659         | 7,659         | 7,659         |
| Subordinated discount bonds      | LV0000800720 | USD      | 200,000 | 100       | 01/10/2018       | 9.5%                  | 10,006        | 9,247         | 9,247         | 9,247         |
| Subordinated discount bonds      | LV0000800845 | USD      | 200,000 | 100       | 15/09/2020       | 6.5%                  | 9,154         | 8,582         | 8,582         | 8,582         |
| Subordinated discount bonds      | LV0000800977 | EUR      | 50,000  | 100       | 25/06/2022       | 4.5%                  | 1,746         | -             | -             | -             |
| Subordinated coupon bonds        | LV0000800985 | USD      | 200,000 | 100       | 27/06/2022       | 4.5%                  | 11,246        | -             | -             | -             |
| <b>Subordinated bonds, total</b> |              |          |         |           |                  |                       | <b>48,451</b> | <b>32,892</b> | <b>32,892</b> | <b>32,892</b> |
| Ordinary coupon bonds            | LV0000800910 | EUR      | 10,000  | 1,000     | 20/12/2013       | 1.5%+ 6m Euribor      | 6,166         | 2,285         | 7,036         | 7,036         |
| Ordinary coupon bonds            | LV0000800928 | USD      | 30,000  | 1,000     | 21/12/2013       | 1.5%+ 6m Libor        | 16,870        | 16,330        | 16,330        | 16,330        |
| <b>Ordinary bonds, total</b>     |              |          |         |           |                  |                       | <b>23,036</b> | <b>18,615</b> | <b>23,366</b> | <b>23,366</b> |
| <b>Issued securities, total</b>  |              |          |         |           |                  |                       | <b>71,487</b> | <b>51,507</b> | <b>56,258</b> | <b>56,258</b> |

## Note 11

### Subordinated liabilities

As at 30 June 2012, the group's and bank's subordinated liabilities of LVL 60,211 (54,554) thousand comprised subordinated bonds amounting to LVL 48,451 (32,892) thousand and subordinated loans amounting to LVL 11,760 (21,662) thousand.

The bank carried out several issues of subordinated bonds. The issues of subordinated bonds made in 2008 and 2010 were closed and these bonds are not registered with NASDAQ OMX Riga Stock Exchange. Meanwhile, the subordinated bonds issued in 2011 and 2012 have been launched on the regulated market.

The bank also received subordinated loans for the total amount of USD 17,8 (36,7) million and EUR 2,4 (2,4) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the bank's share capital.

The analysis of subordinated loans as at 30 June 2012:

|                                    | Loan amount   | Accumulated interest | % of total subordinated capital | Interest rate | Currency | Date of the agreement | Date of maturity |
|------------------------------------|---------------|----------------------|---------------------------------|---------------|----------|-----------------------|------------------|
|                                    | LVL'000       | LVL'000              | (%)                             |               |          |                       |                  |
| <b>Major lenders</b>               |               |                      |                                 |               |          |                       |                  |
| Harpic group Ltd                   | 8,430         | 37                   | 14.00                           | 5.22          | USD      | 14.08.2008            | 19.08.2018       |
| <b>Other lenders</b>               |               |                      |                                 |               |          |                       |                  |
| non-residents                      | 1,579         | 28                   |                                 | 1.75 - 8.39   | USD      |                       |                  |
| non-residents                      | 1,683         | 3                    |                                 | 3.46 - 3.90   | EUR      |                       |                  |
| <b>Other lenders in total</b>      | <b>3,262</b>  | <b>31</b>            |                                 |               |          |                       |                  |
| <b>Total subordinated deposits</b> | <b>11,692</b> | <b>68</b>            |                                 |               |          |                       |                  |

The analysis of subordinated loans as at 31 December 2011:

|                                    | Loan amount   | Accumulated interest | % of total subordinated capital | Interest rate | Currency | Date of the agreement | Date of maturity |
|------------------------------------|---------------|----------------------|---------------------------------|---------------|----------|-----------------------|------------------|
|                                    | LVL'000       | LVL'000              | (%)                             |               |          |                       |                  |
| <b>Major lenders</b>               |               |                      |                                 |               |          |                       |                  |
| Harpic group Ltd                   | 8,160         | 35                   | 14.96                           | 5.13          | USD      | 14.08.2008            | 19.08.2018       |
| <b>Other lenders*</b>              |               |                      |                                 |               |          |                       |                  |
| non-residents                      | 11,756        | 24                   |                                 | 1.99 - 8.39   | USD      |                       |                  |
| non-residents                      | 1,683         | 4                    |                                 | 3.46 - 3.90   | EUR      |                       |                  |
| <b>Other lenders in total</b>      | <b>13,439</b> | <b>28</b>            |                                 |               |          |                       |                  |
| <b>Total subordinated deposits</b> | <b>21,599</b> | <b>63</b>            |                                 |               |          |                       |                  |

\*- The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital.

The remaining weighted average maturity of subordinated deposits from other lenders is 5.68 (5.37) years. The basic conditions of the subordinated bonds issued by the bank are disclosed in Note 10.

## Note 12

### Paid-in share capital

In the reporting period, the bank issued 10,600 voting shares in addition to the existing 110,000 voting shares. The issue of the bank's share capital was intended to ensure steady development of the group/ bank in the future.

As at 30 June 2012, the paid-in share capital of the bank amounted to LVL 19.7 million (16.5 million). All the shares have the par value of LVL 150 (150) each. The bank's share capital consists of 120,600 (110,000) ordinary voting shares and 11,000 (0) non-voting shares. As at 30 June 2012, the bank had 121 (123) voting shareholders, including 16 (13) legal entities and 105 (110) private individuals.

As at 30 June 2012, the members of the Board directly and indirectly held 43.37% (43.31%) of the voting share capital, while the members of the Council – 45.92% (46.06%) of the voting share capital.

## Note 13

### Related party disclosures

Related parties of the group and the bank are defined as shareholders who have a qualifying holding in the bank, and Chairman and Members of the bank's Council and Board, Head and Members of the Internal Audit Department, key management personnel that are authorised to plan, manage and control bank's operations and are responsible for these functions, and spouses, parents and children of the individuals referred to previously, bank's subsidiaries and companies in which the bank has an interest as well as companies in which these individuals have a qualifying holding.

Group's transactions with related parties:

|                           | 30/06/2012 |                   |                           | 31/12/2011 |                   |                           |
|---------------------------|------------|-------------------|---------------------------|------------|-------------------|---------------------------|
|                           | Management | Related companies | Other related individuals | Management | Related companies | Other related individuals |
|                           | LVL'000    | LVL'000           | LVL'000                   | LVL'000    | LVL'000           | LVL'000                   |
| <b>Assets</b>             |            |                   |                           |            |                   |                           |
| Loans                     | 545        | 1,151             | 733                       | 527        | 2,000             | 776                       |
| Impairment expense        | -          | -                 | -                         | -          | -                 | -                         |
| Loans, net                | 545        | 1,151             | 733                       | 527        | 2,000             | 776                       |
| <b>Liabilities</b>        |            |                   |                           |            |                   |                           |
| Deposits                  | 1,258      | 2,654             | 999                       | 1,368      | 493               | 1,421                     |
| Subordinated deposits     | -          | -                 | -                         | -          | -                 | -                         |
| Subordinated bonds        | 1,056      | 87                | 671                       | 67         | 317               | 115                       |
| <b>Memorandum items</b>   |            |                   |                           |            |                   |                           |
| Undrawn credit facilities | 251        | 449               | 77                        | 316        | 86                | -                         |
| Guarantees                | 136        | -                 | -                         | 134        | -                 | -                         |

|                           | 01/01/2012 - 30/06/2012 |                   |                           | 01/01/2011 - 30/06/2011 |                   |                           |
|---------------------------|-------------------------|-------------------|---------------------------|-------------------------|-------------------|---------------------------|
|                           | Management              | Related companies | Other related individuals | Management              | Related companies | Other related individuals |
|                           | LVL'000                 | LVL'000           | LVL'000                   | LVL'000                 | LVL'000           | LVL'000                   |
| <b>Income/ expense</b>    |                         |                   |                           |                         |                   |                           |
| Interest income           | 18                      | 53                | 12                        | 3                       | 299               | 12                        |
| Commission and fee income | 7                       | 18                | 4                         | 4                       | 30                | 2                         |
| Interest expense          | (1)                     | (1)               | (1)                       | (5)                     | (8)               | (5)                       |

Bank's transactions with related parties:

|                           | 30/06/2012 |                   |              |                           | 31/12/2011 |                   |              |                           |
|---------------------------|------------|-------------------|--------------|---------------------------|------------|-------------------|--------------|---------------------------|
|                           | Management | Related companies | Subsidiaries | Other related individuals | Management | Related companies | Subsidiaries | Other related individuals |
|                           | LVL'000    | LVL'000           | LVL'000      | LVL'000                   | LVL'000    | LVL'000           | LVL'000      | LVL'000                   |
| <b>Assets</b>             |            |                   |              |                           |            |                   |              |                           |
| Loans                     | 545        | 1,151             | 13,936       | 456                       | 527        | 2,000             | 10,182       | 481                       |
| Impairment expense        | -          | -                 | (185)        | -                         | -          | -                 | (174)        | -                         |
| Loans, net                | 545        | 1,151             | 13,751       | 456                       | 527        | 2,000             | 10,008       | 481                       |
| <b>Liabilities</b>        |            |                   |              |                           |            |                   |              |                           |
| Deposits                  | 1,258      | 2,654             | 9,067        | 920                       | 1,368      | 493               | 7,893        | 1,341                     |
| Subordinated deposits     | -          | -                 | -            | -                         | -          | -                 | -            | -                         |
| Subordinated bonds        | 1,056      | 87                | -            | 570                       | 67         | 317               | -            | 14                        |
| <b>Memorandum items</b>   |            |                   |              |                           |            |                   |              |                           |
| Undrawn credit facilities | 251        | 449               | 1,075        | 13                        | 316        | 86                | 627          | -                         |
| Guarantees                | 136        | -                 | 5            | -                         | 134        | -                 | 5            | -                         |

|  | 01/01/2012 - 30/06/2012 |                   |              |                           | 01/01/2011 - 30/06/2011 |                   |              |                           |
|--|-------------------------|-------------------|--------------|---------------------------|-------------------------|-------------------|--------------|---------------------------|
|  | Management              | Related companies | Subsidiaries | Other related individuals | Management              | Related companies | Subsidiaries | Other related individuals |
|  | LVL'000                 | LVL'000           | LVL'000      | LVL'000                   | LVL'000                 | LVL'000           | LVL'000      | LVL'000                   |
| <b>Income/ expense</b>                 |                         |                   |              |                           |                         |                   |              |                           |
| Interest income                        | 18                      | 53                | 366          | 7                         | 3                       | 62                | 299          | 7                         |
| Commission and fee income              | 7                       | 18                | 44           | 2                         | 4                       | 11                | 30           | 2                         |
| Interest expense                       | (1)                     | (1)               | (2)          | (1)                       | (5)                     | (2)               | (8)          | (5)                       |
| Other operating income                 | -                       | -                 | 243          | -                         | -                       | -                 | 194          | -                         |
| Other operating expense                | -                       | -                 | (1,202)      | -                         | -                       | -                 | (777)        | -                         |
| Change in allowances for credit losses | -                       | -                 | (11)         | -                         | -                       | -                 | 182          | -                         |

The Latvian banking legislation requires that the total credit exposure to related parties may not exceed 15% of credit institution's equity. As at 30 June 2012, the bank was in compliance with the above statutory requirements.

Note 14

**Dividends declared and paid**

|                    | Group/ Bank<br>01/01/2012 -<br>30/06/2012 | Group/ Bank<br>01/01/2011 -<br>30/06/2011 |
|--------------------|---|---|
|                    | LVL'000                                   | LVL'000                                   |
| Dividends declared | 19,106                                    | -   |
| Dividends paid     | 19,095                                    | -   |

|                              | Group/ Bank<br>01/01/2012 -<br>30/06/2012 | Group/ Bank<br>01/01/2011 -<br>30/06/2011 |
|------------------------------|---|---|
|                              | LVL'000                                   | LVL'000                                   |
| Dividends declared per share | 158                                       | -   |
| Dividends paid per share     | 158                                       | -   |

Note 15

**Segment information**

The group and the bank believe that they are organised into three segments based on the core business activities as follows: banking, investments, and advisory. The group defines its operating segments based on its organisational structure. The bank views its operations as one single segment, without making any separate disclosures, while at the group level the bank and all its subsidiaries are attributed to the group's operating segments as follows:

- Banking: ABLV Bank, AS, ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, and ABLV Luxembourg, S.A;
- Advisory: ABLV Consulting Services, AS, ABLV Corporate Services, SIA, ABLV Corporate Services, LTD;
- Investments: ABLV Transform Partnership, KS, AB.LV Transform Investments, SIA, Transform 1, SIA, Transform 2, SIA, Transform 3, SIA, Transform 4, SIA, Transform 6, SIA, Transform 7, SIA, Transform 8, SIA, Transform 9, SIA, Transform 10, SIA, Transform 11, SIA, Transform 12, SIA, Transform 13, SIA, Transform 14, SIA, Transform 17, SIA, Transform 18, SIA, Elizabethes Park House, SIA, New Hanza City, SIA, ABLV Private Equity Fund 2010, KS, Vaiņodes Agro, SIA, Vaiņode Agro Holding, SIA, ABLV Private Equity Management, SIA, Gas Stream, SIA, Bio Future, SIA.

Operating segment information is prepared on the basis of internal reports:

|   | Group            |               |            | Group            |               |            | Bank             | Bank             |
|---|------------------|---------------|------------|------------------|---------------|------------|------------------|------------------|
|   | 30/06/2012       |               |            | 31/12/2011       |               |            | 30/06/2012       | 31/12/2011       |
|   | Banking          | Investments   | Advisory   | Banking          | Investments   | Advisory   | Banking          | Banking          |
|   | LVL '000         | LVL '000      | LVL '000   | LVL '000         | LVL '000      | LVL '000   | LVL '000         | LVL '000         |
| <b>Assets</b>                                     |                  |               |            |                  |               |            |                  |                  |
| Cash and deposits with the Bank of Latvia         | 88,855           | -             | -          | 143,663          | -             | -          | 88,855           | 143,663          |
| Balances due from credit institutions             | 397,207          | -             | 45         | 518,823          | 35            | 23         | 395,140          | 518,472          |
| Securities and derivatives                        | 983,193          | -             | -          | 549,798          | -             | -          | 983,193          | 549,798          |
| Loans   | 502,245          | 10,179        | -          | 519,239          | 8,848         | -          | 512,406          | 529,441          |
| Investments in subsidiaries and associates        | -                | 2,269         | -          | -                | 315           | -          | 77,783           | 71,286           |
| Tangible and intangible fixed assets              | 8,468            | 5,205         | 175        | 8,509            | 4,935         | 120        | 8,142            | 8,322            |
| Other assets                                      | 28,748           | 60,414        | 191        | 28,242           | 55,732        | 143        | 28,609           | 28,452           |
| <b>Total assets per internal reporting</b>        | <b>2,008,716</b> | <b>78,067</b> | <b>411</b> | <b>1,768,274</b> | <b>69,865</b> | <b>286</b> | <b>2,094,128</b> | <b>1,849,434</b> |
| Less allowance for credit losses*                 | 56,145           | -             | -          | 60,126           | -             | -          | 56,303           | 60,273           |
| <b>Total assets per IFRS</b>                      | <b>1,952,571</b> | <b>78,067</b> | <b>411</b> | <b>1,708,148</b> | <b>69,865</b> | <b>286</b> | <b>2,037,825</b> | <b>1,789,161</b> |
| <b>Liabilities</b>                                |                  |               |            |                  |               |            |                  |                  |
| Balances due to credit institutions               | 3,432            | 2,297         | -          | 8,478            | 2,468         | -          | 3,432            | 8,478            |
| Derivatives                                       | 172              | -             | -          | 141              | -             | -          | 172              | 141              |
| Deposits and issued securities                    | 1,922,745        | 157           | -          | 1,668,425        | 182           | -          | 1,931,655        | 1,681,063        |
| Allowance for credit losses                       | 56,145           | -             | -          | 60,098           | -             | -          | 56,303           | 60,272           |
| Other liabilities                                 | 8,352            | 4,934         | 239        | 8,490            | 4,133         | 296        | 8,543            | 9,305            |
| <b>Total liabilities per internal reporting</b>   | <b>1,990,846</b> | <b>7,388</b>  | <b>239</b> | <b>1,745,632</b> | <b>6,783</b>  | <b>296</b> | <b>2,000,105</b> | <b>1,759,259</b> |
| <b>Total liabilities and shareholders' equity</b> | <b>2,083,737</b> | <b>3,164</b>  | <b>293</b> | <b>1,836,304</b> | <b>1,774</b>  | <b>347</b> | <b>2,094,128</b> | <b>1,849,434</b> |
| Less allowance for credit losses*                 | 56,145           | -             | -          | 60,126           | -             | -          | 56,303           | 60,273           |
| <b>Total liabilities per IFRS</b>                 | <b>2,027,592</b> | <b>3,164</b>  | <b>293</b> | <b>1,776,178</b> | <b>1,774</b>  | <b>347</b> | <b>2,037,825</b> | <b>1,789,161</b> |

\* - For internal reporting purposes, the allowance for credit losses is disclosed separately as a liability rather than impairment of assets.



|   | Group                   |             |                | Group                   |             |              | Bank                    | Bank                    |
|---|-------------------------|-------------|----------------|-------------------------|-------------|--------------|-------------------------|-------------------------|
|   | 01/01/2012 - 30/06/2012 |             |                | 01/01/2011 - 30/06/2011 |             |              | 01/01/2012 - 30/06/2012 | 01/01/2011 - 30/06/2011 |
|   | Banking                 | Investments | Advisory       | Banking                 | Investments | Advisory     | Banking                 | Banking                 |
| <b>Income statement</b>                         | LVL '000                | LVL '000    | LVL '000       | LVL '000                | LVL '000    | LVL '000     | LVL '000                | LVL '000                |
| Net interest income                             | 10,378                  | 408         | -              | 10,076                  | 290         | -            | 10,762                  | 10,375                  |
| Net commission and fee income                   | 13,317                  | -           | -              | 11,263                  | -           | -            | 11,929                  | 9,827                   |
| Net result from securities and foreign exchange | 7,031                   | (30)        | -              | 9,386                   | 10          | (10)         | 7,034                   | 9,390                   |
| Net other income/ expense                       | (1,044)                 | 1,121       | 227            | (616)                   | 1,165       | (13)         | (1,846)                 | (1,227)                 |
| Income from dividends                           | 4                       | -           | -              | 1                       | -           | -            | 1,401                   | 707                     |
| Administrative expense and depreciation         | (13,449)                | (719)       | (1,245)        | (12,552)                | (804)       | (319)        | (12,526)                | (11,921)                |
| Change in allowances for credit losses          | (8,785)                 | -           | -              | (6,040)                 | -           | -            | (8,795)                 | (6,040)                 |
| Impairment of financial instruments             | (306)                   | -           | -              | (789)                   | -           | -            | (306)                   | (789)                   |
| Impairment of non-financial assets              | (135)                   | -           | -              | -                       | -           | -            | (258)                   | (106)                   |
| Corporate income tax                            | (1,804)                 | (65)        | -              | (1,163)                 | (88)        | -            | (1,697)                 | (1,087)                 |
| <b>Net profit/ (loss) for the period</b>        | <b>5,207</b>            | <b>715</b>  | <b>(1,018)</b> | <b>9,566</b>            | <b>573</b>  | <b>(342)</b> | <b>5,698</b>            | <b>9,129</b>            |

## Note 16

### Litigation and claims

In the ordinary course of business, the bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The management believe that any legal proceedings pending as at 30 June 2012 will not result in material losses for the bank and/ or the group.

## Note 17

### Events after reporting date

As of the last day of the reporting period until the date of signing these interim condensed consolidated financial statements there have been no events requiring adjustment of or disclosure in these interim condensed consolidated financial statements or notes thereto, except as disclosed below.

In July 2012, the bank issued ordinary bonds amounting to USD 50 million with maturity term being 2 years, and income of LIBOR 6M +1.20% p.a. set (ISIN LV0000800969), which is the largest issue of corporate securities ever listed on NASDAQ OMX Riga Stock Exchange.

## INDEPENDENT AUDITORS' REPORT

To the shareholders of ABLV Bank AS

### Report on the Financial Statements

We have audited the interim condensed consolidated financial statements of ABLV Bank AS and its subsidiaries (hereinafter – the Group) and the accompanying interim condensed financial statements of ABLV Bank AS (hereinafter - the Bank), which are set out on pages 8 through 33 and which comprise the statements of financial position as at 30 June 2012, the statements of comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2012, and explanatory notes.

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

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 and for such internal control as management determines is necessary to enable the preparation of interim condensed financial statements that are free from material misstatement, whether due to fraud or error.

#### 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



Iveta Vimba  
Member of the board  
Latvian Sworn Auditor  
Certificate No. 153

Rīga, 15 August 2012