



ABLV

BANKING / INVESTMENTS \ ADVISORY

# ABLV Bank, AS

Interim condensed consolidated annual report for the six-month period ended 30 June 2011

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Ladies and Gentlemen,  
Dear Shareholders, Customers and Business Partners of ABLV Bank, AS!

First half of 2011 was marked by positive atmosphere in Latvian economy and financial sector – gross domestic product continues to grow, unemployment decreases, commercial banks make profit, lending market recovers gradually, but steadily.

Signs of recovery observed in Latvian economy were also appreciated by world's leading credit rating agencies. On 15 March 2011, Fitch upgraded Latvia's rating from BB+ to BBB-, saying the country has made good progress in its recovery from a severe financial crisis. Positive tendencies prevailing in Latvia were also noticed by Standard & Poor's, which, following the decision to raise Latvia's rating from BB to BB+ taken on 7 December 2010, revised the outlook for Latvia's rating from stable to positive on 9 March 2011. Meanwhile, Moody's assessed the pace of ongoing economic recovery and changed the outlook on the Baa3 Latvia's credit rating from stable to positive on 6 June 2011.

Economic recovery has positive effect on financial markets, thus enabling the Bank to achieve and even surpass financial plans set at the beginning of the year.

Main task of the Bank's management in 2011 is to expand the Bank's and the Group's operations and to increase profitability, alongside continuing improvement of operational risks management techniques. Financial performance of first half of 2011 provides strong evidence of achieving the above mentioned targets.

Given growing amount of deposits, investment operations, and non-interest income, the Group ended first half of 2011 with profit of LVL 9.8 million, but the Bank's ended first half of 2011 with profit of LVL 9.1 million.

It should be noted that all key performance indicators of the Bank remain high, including capital adequacy and liquidity. As of 30 June 2011, the Bank's liquidity ratio reached 73.83%, whereas the Bank's capital adequacy ratio equalled 12.51%. Based on the FCMC regulations, the minimum capital requirement established for the banking industry will be revised upwards starting from January 2012. The Bank's management is sure that fulfill the above minimum capital requirements in addition.

Within the reporting period, the change of the Bank's name and implementation of the new brand was essential. The Bank's new name is ABLV Bank, AS. Having changed the Bank's name and visual identity, the process of refocusing the Bank's operations has been completed, establishing provision of tailored financial services that meet the highest standards. The names of other companies constituting the Group have been changed as well.

According to the strategy approved in 2008, ABLV Bank, AS is going to become a leader in rendering banking services, private wealth management, and financial advisory in Eastern Europe. The aim of the new brand implementation is to become more associated with the selected course of business and to strengthen the Bank's reputation internationally. Whereas the Bank's legal name and brand have been changed, the ownership structure remains the same.

### **Financial results**

The Bank's financial indicators for first half of 2011 confirm that financial targets set at the beginning of the year have been achieved and even surpassed.

The amount of deposits with the Bank, as well as the Bank's assets continue to grow. Since the beginning of 2011, the amount of deposits has increased by LVL 82 million, i.e. 6.6%, to amount to LVL 1.3 billion. The overall increase in deposits in 2011 is planned to reach 15%.

As at 30 June 2011, the amount of the Bank's assets totalled almost LVL 1.5 billion. Since the beginning of the year, the amount of assets has grown by 6.5%. The Bank continued investing in securities. As at 30 June 2011, the total amount of the securities portfolio was equal to LVL 377 million. During the reporting period, annual yield of the securities portfolio amounted to 3.94%.

Net loan portfolio of the Bank was equal to LVL 496 million, as at the end of June.

As at 30 June 2011, the Bank's operating income, before allowances for credit losses, equalled LVL 31 million. ROE reached 22.38 %, and ROA – 1.21%, as at 30 June 2011.

### **For society**

In H1 2011, several socially important projects have been carried out, provided support from the Bank and ABLV Charitable Foundation.

At the beginning of the year, a book V\*X Latvian Architecture Since 1991 has been published. This book represents a first review of architecture that appeared during the last 20 years after Latvia regained independency. The book has been published in Latvian and English. It includes texts and photos presenting best pieces of architecture selected by five prominent Latvian architecture critics. Those pieces of architecture include buildings constructed since 1991 – from those completed in 1990s till construction boom of the new millennium and its consequences.

Also, a collection brought by world famous fashion historian Alexandre Vassiliev from Paris was exhibited in Riga Museum of Decorative Arts and Design. The exhibition was named "From mini to maxi. The fashion of 1960s" and was already a third dress exhibition presented by Alexandre Vassiliev in Riga with support of ABLV Bank, AS.

We express our gratitude to our shareholders and customers for their loyalty and to the Bank's employees for their contribution in the Bank's growth!

Chairman of the Council

Aleksandrs Bergmanis

Chairman of the Board

Ernests Bernis

Riga, 12 August 2011

### The Council of the Bank:

Chairman of the Council: Aleksandrs Bergmanis	Date of re-appointment: 14/12/2010
Deputy Chairman of the Council: Jānis Krīgers	Date of re-appointment: 14/12/2010
Council Member: Igoris Rapoportis	Date of appointment: 14/12/2010
Resigned as Council Member: Vladimirs Kutovojs	Date of resignation: 13/12/2010

### The Board of the Bank:

Chairman of the Board: Ernests Bernis - Chief Executive Officer (CEO)	Date of re-appointment: 14/12/2010
Deputy Chairman of the Board: Oļegs Fiļs – Deputy Chief Executive Officer (dCEO)	Date of re-appointment: 14/12/2010
Board Members: Aleksandrs Pāže – Chief Compliance Officer (CCO) Edgars Pavlovičs – Chief Risk Officer (CRO) Māris Kannenieks – Chief Financial Officer (CFO) Rolands Citajevs – Chief IT Officer (CIO) Vadims Reinfelds – Chief Operating Officer (COO)	Date of re-appointment: 14/12/2010 14/12/2010 14/12/2010 14/12/2010 14/12/2010

Chairman of the Council

Aleksandrs Bergmanis

Chairman of the Board

Ernests Bernis

Riga, 12 August 2011

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 7 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 2011 and 31 December 2010, and results of their operations, changes in the shareholders' equity and cash flows for the six-month periods ended 30 June 2011 and 30 June 2010.

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 Group'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 Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

Chairman of the Council

Aleksandrs Bergmanis

Chairman of the Board

Ernests Bernis

Riga, 12 August 2011

**ABLV Bank, AS**  
**Interim consolidated income statements and other statements of comprehensive income**  
**for the six-month periods ended 30 June 2011 and 30 June 2010**

	Notes	Group	Group	Bank	Bank
		30.06.2011	30/06/2010	30/06/2011	30/06/2010
		LVL '000	LVL '000	LVL '000	LVL '000
Interest income	4	18,572	18,034	18,523	18,149
Interest expense	4	(8,206)	(10,119)	(8,148)	(10,132)
<b>Net interest income</b>		<b>10,366</b>	<b>7,915</b>	<b>10,375</b>	<b>8,017</b>
Commission and fee income		12,812	9,818	11,173	8,654
Commission and fee expense		(1,549)	(1,771)	(1,346)	(1,607)
<b>Net commission and fee income</b>		<b>11,263</b>	<b>8,047</b>	<b>9,827</b>	<b>7,047</b>
Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss	5	(7,415)	19,204	(7,415)	19,204
Net realised gain from available-for-sale financial assets	5	2,659	303	2,659	303
Net realised gain/ (loss) from financial assets at amortised cost	5	2	(229)	2	(229)
Net result from foreign exchange trading and revaluation	5	14,140	(13,710)	14,144	(14,131)
Other income		2,060	634	658	673
Income from dividends		1	3	707	51
Change in allowances for credit losses	6	(6,040)	(16,289)	(6,040)	(16,289)
<b>Operating income</b>		<b>27,036</b>	<b>5,878</b>	<b>24,917</b>	<b>4,646</b>
Administrative expense		(12,825)	(9,788)	(11,128)	(8,927)
Depreciation		(836)	(839)	(779)	(794)
Other expense		(1,524)	(578)	(1,885)	(820)
(Loss)/ gain from sale of tangible and intangible fixed assets		(14)	47	(14)	(2)
Impairment of financial instruments		(789)	-	(789)	-
Impairment of non-financial assets		-	-	(106)	-
<b>Total operating expense</b>		<b>(15,988)</b>	<b>(11,158)</b>	<b>(14,701)</b>	<b>(10,543)</b>
Profit/ (loss) before corporate income tax		11,048	(5,280)	10,216	(5,897)
Corporate income tax	7	(1,251)	669	(1,087)	741
<b>Net profit/ (loss) for the period</b>		<b>9,797</b>	<b>(4,611)</b>	<b>9,129</b>	<b>(5,156)</b>
<b>Attributable to:</b>					
Equity holders of the Bank		9,915	(4,488)		
Non-controlling interests		(118)	(123)		
<b>Other comprehensive income:</b>					
Changes in fair value revaluation reserve of available-for-sale financial assets		955	1,271	955	1,271
Charge to income statement as a result of sale of available-for-sale securities		(2,661)	(74)	(2,661)	(74)
Charge to income statement due to recognised impairment of available-for-sale securities		789	-	789	-
Change in deferred corporate income tax		138	(179)	138	(179)
<b>Other comprehensive income, total</b>		<b>(779)</b>	<b>1,018</b>	<b>(779)</b>	<b>1,018</b>
<b>Total comprehensive income</b>		<b>9,018</b>	<b>(3,593)</b>	<b>8,350</b>	<b>(4,138)</b>
<b>Attributable to:</b>					
Equity holders of the Bank		9,136	(3,470)		
Non-controlling interests		(118)	(123)		

Chairman of the Council

Aleksandrs Bergmanis

Chairman of the Board

Ernests Bernis

Riga, 12 August 2011

	Notes	Group	Group	Bank	Bank
		30/06/2011	31/12/2010	30/06/2011	31/12/2010
Assets		LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks		72 865	82 120	72 865	82 120
Balances due from credit institutions	9	424 297	325 352	424 251	325 326
Financial assets at fair value through profit or loss		21 658	23 372	21 658	23 372
Debt securities and other fixed income securities	10	19 216	19 367	19 216	19 367
Shares and other non-fixed income securities		450	674	450	674
Derivatives		1 992	3 331	1 992	3 331
Available-for-sale financial assets		199 888	168 657	199 888	168 657
Debt securities and other fixed income securities	10	197 848	166 431	197 848	166 431
Shares and other non-fixed income securities		2 040	2 226	2 040	2 226
Loans and receivables		494 683	528 872	496 472	528 561
Loans		494 683	517 811	496 472	517 500
Debt securities and other fixed income securities	10	-	11 061	-	11 061
Held-to-maturity investments		158 113	155 112	158 113	155 112
Debt securities and other fixed income securities	10	158 113	155 112	158 113	155 112
Prepaid expense and accrued income		397	339	274	292
Investments in subsidiaries and associates		304	-	60 963	58 661
Investment properties		20 839	20 658	16 605	16 670
Tangible fixed assets		9 951	7 954	5 142	5 253
Intangible fixed assets		3 692	3 701	3 557	3 548
Current corporate income tax receivables		143	266	62	176
Deferred corporate income tax	7	4 829	5 736	4 801	5 718
Other assets		49 399	45 388	3 409	5 099
<b>TOTAL ASSETS</b>		<b>1 461 058</b>	<b>1 367 527</b>	<b>1 468 060</b>	<b>1 378 565</b>

Chairman of the Council

Aleksandrs Bergmanis

Chairman of the Board

Ernests Bernis

Riga, 12 August 2011

**ABLV Bank, AS**  
**Interim consolidated statements of financial position as at 30 June 2011 and 31 December 2010**

	Notes	Group	Group	Bank	Bank
		30/06/2011	31/12/2010	30/06/2011	31/12/2010
		LVL '000	LVL '000	LVL '000	LVL '000
<b>Liabilities</b>					
Demand deposits from credit institutions		2,156	1,906	2,156	1,906
Financial liabilities at fair value through profit or loss		138	226	138	226
Derivatives		138	226	138	226
Term deposits from credit institutions		2,546	3,502	-	550
Deposits	12	1,323,549	1,236,791	1,330,551	1,248,190
Deferred income and accrued expense		3,485	2,769	3,172	2,460
Current corporate income tax liabilities		109	150	-	-
Other liabilities	7	5,571	4,333	4,947	2,973
Deferred corporate income tax	14	21	21	-	-
Issued securities	14	22,458	22,921	22,458	22,921
Subordinated deposits		20,911	23,962	20,911	23,962
<b>Other liabilities</b>		<b>1,380,944</b>	<b>1,296,581</b>	<b>1,384,333</b>	<b>1,303,188</b>
<b>Shareholders' equity</b>					
Paid-in share capital	15	16,500	16,500	16,500	16,500
Share premium		5,255	5,255	5,255	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		1,050	1,829	1,050	1,829
Retained earnings brought forward		45,180	52,699	50,293	57,240
Retained earnings/ (accumulated deficit) for the period		9,915	(7,519)	9,129	(6,947)
Attributable to the equity holders of the Bank		79,400	70,264	83,727	75,377
Attributable to non-controlling interests		714	682	-	-
<b>Total shareholders' equity</b>		<b>80,114</b>	<b>70,946</b>	<b>83,727</b>	<b>75,377</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,461,058</b>	<b>1,367,527</b>	<b>1,468,060</b>	<b>1,378,565</b>
<b>Memorandum items</b>					
Funds under trust management		102,642	116,823	70,995	84,167
Contingent liabilities		19,051	21,125	19,051	21,125
Financial commitments		5,994	12,934	5,994	12,934

Chairman of the Council

Aleksandrs Bergmanis

Chairman of the Board

Ernests Bernis

Riga, 12 August 2011

**ABLV Bank, AS**  
**Statements of changes in shareholders' equity of the Group**  
**for the six-month periods ended 30 June 2011 and 30 June 2010**

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non- controlling interests	Total shareholders' equity
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>As at 1 January 2010</b>	<b>15,000</b>	<b>255</b>	<b>1,500</b>	<b>88</b>	<b>52,804</b>	<b>69,647</b>	<b>(661)</b>	<b>68,986</b>
Total comprehensive income for the six-month period ended 30 June 2010	-	-	-	1,018	(4,488)	(3,470)	(123)	(3,593)
Issue of shares	1,500	5,000	-	-	-	6,500	-	6,500
<b>As at 30 June 2010</b>	<b>16,500</b>	<b>5,255</b>	<b>1,500</b>	<b>1,106</b>	<b>48,316</b>	<b>72,677</b>	<b>(784)</b>	<b>71,893</b>
<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 the six-month period ended 30 June 2011	-	-	-	(779)	9,915	9,136	(118)	9,018
Decrease of non- controlling interests	-	-	-	-	-	-	150	150
<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>714</b>	<b>80,114</b>

**ABLV Bank, AS**  
**Statements of changes in shareholders' equity of the Bank**  
**for the six-month periods ended 30 June 2011 and 30 June 2010**

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>As at 1 January 2010</b>	<b>15,000</b>	<b>255</b>	<b>1,500</b>	<b>88</b>	<b>57,240</b>	<b>74,083</b>
Total comprehensive income for the six-month period ended 30 June 2010	-	-	-	1,018	(5,156)	(4,138)
Issue of shares	1,500	5,000	-	-	-	6,500
<b>As at 30 June 2010</b>	<b>16,500</b>	<b>5,255</b>	<b>1,500</b>	<b>1,106</b>	<b>52,084</b>	<b>76,445</b>
<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>

**ABLV Bank, AS**  
**Cash flow statements for the six-month periods ended 30 June 2011 and 30 June 2010**

	Group	Group	Bank	Bank
	01/01/2011- 30/06/2011	01/01/2010- 30/06/2010	01/01/2011- 30/06/2011	01/01/2010- 30/06/2010
	LVL '000	LVL '000	LVL '000	LVL '000
<b>Cash flow from operating activities</b>				
Profit/ (loss) before corporate income tax	11,048	(5,280)	10,216	(5,897)
Amortisation and depreciation of fixed assets	836	839	779	794
Increase in allowances for credit losses	6,040	12,169	6,040	12,169
Impairment of non-financial assets	-	-	106	-
(Increase)/ decrease in financial assets at fair value through profit or loss	(656)	1,995	(656)	1,995
Recognised impairment of available-for-sale financial assets	789	-	789	-
Increase/ (decrease) of investments in other entities	151	-	-	-
Unrealised (gain)/ loss from revaluation of foreign currency positions	(7,011)	19,615	(7,008)	19,615
<b>Net cash flow from operating activities before changes in assets and liabilities</b>	<b>11,197</b>	<b>29,338</b>	<b>10,266</b>	<b>28,676</b>
(Increase)/ decrease in balances due from credit institutions	(121)	25,681	(427)	25,680
Decrease/ (increase) in loans	17,246	(14,576)	15,146	(14,780)
Decrease in financial assets at fair value through profit or loss	2,370	2,798	2,370	2,798
(Increase)/ decrease in prepaid expense and accrued income	(58)	196	18	193
(Increase)/ decrease in other assets	(4,098)	(9,298)	1,755	2,942
(Decrease) in balances due to credit institutions	(406)	(1,059)	-	(1,958)
Increase in deposits	86,758	155,631	82,361	155,532
(Decrease)/ increase in financial liabilities at fair value through profit or loss	(88)	2,592	(88)	2,592
Increase in deferred income and accrued expense	716	685	712	688
Increase/ (decrease) in other liabilities	1,237	1,981	1,974	(599)
<b>Net cash flow from operating activities before corporate income tax</b>	<b>114,753</b>	<b>193,969</b>	<b>114,087</b>	<b>201,764</b>
Corporate income tax (paid)	(54)	(254)	-	(250)
<b>Net cash flow from operating activities</b>	<b>114,699</b>	<b>193,715</b>	<b>114,087</b>	<b>201,514</b>
<b>Cash flow from investing activities</b>				
(Purchase) of held-to-maturity investments	(606)	(69,559)	(606)	(69,559)
(Purchase) of available-for-sale financial assets	(132,468)	(43,025)	(132,468)	(43,025)
Sale of available-for-sale financial assets	108,056	24,673	108,056	24,673
(Purchase) of intangible and tangible fixed assets and investment properties	(3,066)	(1,872)	(673)	(637)
Sale of intangible and tangible fixed assets	61	2	61	2
(Purchase) of investments in other entities	(304)	-	(2,408)	(9,643)
Decrease in investments in other entities	-	-	-	600
<b>Net cash flow from investing activities</b>	<b>(28,327)</b>	<b>(89,781)</b>	<b>(28,038)</b>	<b>(97,589)</b>
<b>Cash flow from financing activities</b>				
Proceeds from (repayment) of subordinated liabilities	(3,051)	(4,132)	(3,051)	(4,132)
Issue of securities	(463)	1,874	(463)	1,874
Issue of shares	-	6,500	-	6,500
<b>Net cash flow from financing activities</b>	<b>(3,514)</b>	<b>4,242</b>	<b>(3,514)</b>	<b>4,242</b>
<b>Net cash flow</b>	<b>82,858</b>	<b>108,176</b>	<b>82,535</b>	<b>108,167</b>
Cash and cash equivalents at the beginning of the period	391,251	210,926	391,225	210,895
Gain/ (loss) from revaluation of foreign currency positions	7,011	(19,615)	7,008	(19,615)
Cash and cash equivalents at the end of the period	481,120	299,487	480,768	299,447
<b>Operational cash flows from interest and dividends</b>				
	Group	Group	Bank	Bank
	01/01/2011- 30/06/2011	01/01/2010- 30/06/2010	01/01/2011- 30/06/2011	01/01/2010- 30/06/2010
	LVL '000	LVL '000	LVL '000	LVL '000
Interest received	17,114	15,542	17,401	15,542
Interest paid	(6,900)	(8,939)	(6,908)	(9,012)
Dividends received	1	3	707	51
Dividends paid	-	-	-	-
<b>Cash and cash equivalents</b>				
	Group	Group	Bank	Bank
	30/06/2011	30/06/2010	30/06/2011	30/06/2010
	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with the Bank of Latvia	72,865	59,571	72,865	59,571
Balances due from credit institutions	410,411	242,730	410,059	242,690
Balances due to credit institutions	(2,156)	(2,814)	(2,156)	(2,814)
<b>Total cash and cash equivalents</b>	<b>481,120</b>	<b>299,487</b>	<b>480,768</b>	<b>299,447</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 legislation 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 following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), 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 Group and the Bank operate the central office and two lending centres 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 consolidated financial statements of the Group and the separate financial statements of the Bank for the six-month periods ended 30 June 2011 and 2010 were approved by the Bank's Board on 12 August 2011.

The Group comprises the following subsidiaries:

Company	Country of incorporation	Registration number	Business profile	Bank's share (% of total share capital)
ABLV Asset Management, IPAS	LV	40003814724	Financial services	100
ABLV Capital Markets, IBAS	LV	40003814705	Financial services	100
ABLV Consulting Services, AS	LV	40003540368	Consulting services	100
ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100
ABLV Transform Partnership, KS	LV	40103260921	Holding company	99.9997
AB.LV Transform Investments, SIA	LV	40103191969	Real estate transactions	100
Transform 1, SIA	LV	40103193211	Real estate transactions	100
Transform 2, SIA	LV	40103193033	Real estate transactions	100
Transform 3, SIA	LV	40103193067	Real estate transactions	100
Transform 4, SIA	LV	40103210494	Real estate transactions	100
Transform 6, SIA	LV	40103237323	Real estate transactions	100
Transform 7, SIA	LV	40103237304	Real estate transactions	100
Transform 8, SIA	LV	40103240484	Real estate transactions	100
Transform 9, SIA	LV	40103241210	Real estate transactions	100
Transform 10, SIA	LV	50103247681	Real estate transactions	100
Transform 11, SIA	LV	40103258310	Real estate transactions	100
Transform 12, SIA	LV	40103290273	Real estate transactions	100
Transform 13, SIA	LV	40103300849	Real estate transactions	100
Transform 14, SIA	LV	50103313991	Real estate transactions	100
Transform 15, SIA	LV	40103344858	Real estate transactions	100
Transform 17, SIA	LV	40103424617	Real estate transactions	100
SIA Elizabetes 21a	LV	50003831571	Real estate transactions	91.6
SIA New Hanza City	LV	40103222826	Real estate transactions	100
ABLV Private Equity Fund 2010, KS	LV	40103307758	Holding company	100
ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100
SIA Gas Stream	LV	42103047436	Electricity generation	49
SIA Bio Future	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 2011, 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 in the EU.

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

During the six-month period ended 30 June 2011, 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 in adoption of new and/or changed IFRSs and IFRIC interpretations in the reporting period.

#### 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:

- IAS 24 *Related Party Disclosures* (Revised)
- IAS 32 *Classification on Rights Issues* (Amended)
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amended)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Improvements to IFRSs

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group and the Bank, its impact is described below:

- in May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording;
- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial Instruments: Disclosures*. This improvement gives clarifications of disclosures required by IFRS 7 and emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IAS 34 *Interim Financial Reporting*. This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements;
- IFRIC 13 *Customer Loyalty Programmes*.

The Group has 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, intangible fixed assets, and investment properties, determining the allowance for credit losses, the collateral value, the fair value of financial assets and liabilities, as well as the value of investment properties.

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.

Information given herein in brackets represents comparative figures as at 31 December 2010 or for the six-month period ended 30 June 2010, unless otherwise stated.

As described in the *Report of the Council and the Board* (pages 3 to 4), given the current economic situation, the management of the Bank has a reasonable expectation that the Group and the Bank will have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, these consolidated and separate financial statements for the six-month period ended 30 June 2011 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**

#### **Risk management**

Risks are inherent in the Group's and Bank's business and risk management is one of the Group's and Bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk (Note 16), liquidity risk, and market risks (including interest rate risk, currency risk) (Note 17), as well as operational risk (Note 18).

Risk management stands for identification, assessment and control of potential risks.

The risk management process includes the following:

- identification, assessment and measurement of significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the Group and the Bank;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the Council. The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative, and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the Group's and Bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the Group's and Bank's operational and financial market development; the improvement process is controlled by the Internal Audit Department on a regular basis.

## Note 4

### Interest income and expense

	Group	Group	Bank	Bank
	01/01/2011 - 30/06/2011	01/01/2010 - 30/06/2010	01/01/2011 - 30/06/2011	01/01/2010 - 30/06/2010
	LVL '000	LVL '000	LVL '000	LVL '000
<b>Interest income</b>				
on loans and advances to customers	11,542	13,562	11,493	13,677
non-impaired	9,409	9,616	9,360	9,616
impaired	2,133	3,946	2,133	4,061
on debt securities and other fixed income securities	6,299	4,000	6,299	4,000
financial assets at fair value through profit or loss	267	-	267	-
available-for-sale financial assets	2,521	2,851	2,521	2,851
held-to-maturity investments	3,330	535	3,330	535
non-impaired	3,330	535	3,330	535
loans and receivables	181	614	181	614
non-impaired	181	614	181	614
on balances due from credit institutions and central banks	727	462	727	462
other interest income	4	10	4	10
<b>Total interest income</b>	<b>18,572</b>	<b>18,034</b>	<b>18,523</b>	<b>18,149</b>
<b>Interest expense</b>				
on deposits from non-bank customers	5,060	7,378	5,065	7,391
on subordinated deposits	715	999	715	999
on debt securities issued	939	665	939	665
on balances due to credit institutions and central banks	68	21	5	21
other interest expense	1,424	1,056	1,424	1,056
<b>Total interest expense</b>	<b>8,206</b>	<b>10,119</b>	<b>8,148</b>	<b>10,132</b>

## Note 5

### Net gains/ losses on financial assets

	Group 01/01/2011- 30/06/2011	Group 01/01/2010- 30/06/2010	Bank 01/01/2011- 30/06/2011	Bank 01/01/2010- 30/06/2010
	LVL '000	LVL '000	LVL '000	LVL '000
<b>Financial instruments at fair value through profit or loss</b>				
Gain/ (loss) from revaluation of financial instruments at fair value through profit or loss	656	(1,995)	656	(1,995)
Derivatives	773	(2,010)	773	(2,010)
Securities	(117)	15	(117)	15
(Loss)/ gain from trading with financial instruments at fair value through profit or loss	(8,071)	21,199	(8,071)	21,199
Derivatives	(8,330)	21,011	(8,330)	21,011
Securities	259	188	259	188
<b>Net (loss)/ gain from financial instruments at fair value through profit or loss</b>	<b>(7,415)</b>	<b>19,204</b>	<b>(7,415)</b>	<b>19,204</b>
<b>Available-for-sale financial instruments</b>				
Gain from sale of available-for-sale securities	2,659	303	2,659	303
<b>Net realised gain from available-for-sale financial instruments</b>	<b>2,659</b>	<b>303</b>	<b>2,659</b>	<b>303</b>
<b>Financial instruments of the loans and receivables portfolio</b>				
Gain/ (loss) from sale of securities of the loans and receivables portfolio	2	(229)	2	(229)
<b>Net realised gain/ (loss) from sale of securities of the loans and receivables portfolio</b>	<b>2</b>	<b>(229)</b>	<b>2</b>	<b>(229)</b>
<b>Foreign exchange</b>				
Profit from foreign currency exchange	7,129	5,905	7,135	5,484
Gain/ (loss) from revaluation of foreign currency positions	7,011	(19,615)	7,009	(19,615)
<b>Net result from foreign exchange trading and revaluation</b>	<b>14,140</b>	<b>(13,710)</b>	<b>14,144</b>	<b>(14,131)</b>

The result of foreign exchange transactions mainly represents currency exchange loss or gain. The significant differences observed between the results for the reporting period and the first half of 2010 are due to considerable fluctuations of the USD exchange rate. In the first half of 2010 the USD exchange rate grew by 17%, while in the reporting period it declined by 9%.

The procedure for managing currency risk is disclosed in Note 17. To hedge its exposure to currency risk, the Group/ Bank enters into currency forwards. Therefore, to objectively assess the revaluation result of foreign currency positions, the net gain/ (loss) from revaluation of and trading with Group's/ Bank's derivatives as well as revaluation of currency positions should be analysed.

## Note 6

### Allowances for credit losses

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 loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Other 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>

During the first six months of 2011, Latvia showed certain signs of economic recovery, which also resulted in Moody's changing the outlook of Latvia's credit rating Baa3 from stable to positive. Latvia reported a growing number of real estate transactions. In addition, the borrowers' ability to repay their loans on a timely basis stabilised. Affected by these factors, the decline in the recoverable amount of loans decelerated and, as a result, the Group/ Bank made additional allowances for credit losses of LVL 6 (16.3) million, which is almost three times as low as the figure for the first half of 2010.

The table below presents changes in allowances for credit losses of the Group and the Bank during the six-month period ended 30 June 2010:

	Mortgage loans	Business loans	Consumer loans	Other loans	Securities at fair value	Available-for-sale securities	Loans and receivables	Other assets	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowances	920	11,028	30	594	2	191	4,013	338	17,116
Portfolio allowances	31,960	-	230	1,674	-	-	-	-	33,864
<b>Total allowances at the beginning of the period</b>	<b>32,880</b>	<b>11,028</b>	<b>260</b>	<b>2,268</b>	<b>2</b>	<b>191</b>	<b>4,013</b>	<b>338</b>	<b>50,980</b>
Increase/ (decrease) in allowances for the period	6,620	8,856	64	985	-	(28)	(477)	269	16,289
Recovery of write-offs/ asset write-off (expense)	-	-	-	-	-	-	-	7	7
Increase in allowances due to currency fluctuations	-	-	-	-	1	32	495	-	528
(Elimination) of allowances for the period due to write-offs	(557)	(1,417)	-	(1,529)	-	-	(1,153)	-	(4,656)
Individual allowances	2,395	18,467	-	246	3	195	2,878	614	24,798
Portfolio allowances	36,548	-	324	1,478	-	-	-	-	38,350
<b>Total allowances at the end of the period</b>	<b>38,943</b>	<b>18,467</b>	<b>324</b>	<b>1,724</b>	<b>3</b>	<b>195</b>	<b>2,878</b>	<b>614</b>	<b>63,148</b>

## Note 7

### Deferred corporate income tax

	Group 01/01/2011- 30/06/2011 LVL'000	Group 01/01/2010- 30/06/2010 LVL'000	Bank 01/01/2011- 30/06/2011 LVL'000	Bank 01/01/2010- 30/06/2010 LVL'000
Profit/ (loss) before corporate income tax	11,048	(5,280)	10,216	(5,897)
<b>Theoretical corporate income tax</b>	<b>1,657</b>	<b>(792)</b>	<b>1,532</b>	<b>(885)</b>
Permanent differences	(477)	84	(516)	105
<b>Actual corporate income tax expense for the reporting period</b>	<b>1,180</b>	<b>(708)</b>	<b>1,016</b>	<b>(780)</b>
Adjustments to prior-year deferred tax	38	31	38	31
Tax paid abroad	33	8	33	8
<b>Total corporate income tax expense</b>	<b>1,251</b>	<b>(669)</b>	<b>1,087</b>	<b>(741)</b>

Deferred corporate income tax calculation:

	Group 30.06.2011 LVL'000	Group 31.12.2010 LVL'000	Bank 30.06.2011 LVL'000	Bank 31.12.2010 LVL'000
Accumulated excess of tax depreciation over accounting depreciation	2,688	4,674	2,511	4,497
Fair value revaluation reserve of available-for-sale financial	1,223	2,135	1,223	2,135
Collective (portfolio) allowances and other accrued liabilities	(2,301)	(2,925)	(1,504)	(2,127)
Revaluation of assets, net	(1,998)	1,023	(1,998)	1,023
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax losses	(29,428)	(40,766)	(32,234)	(43,646)
<b>Basis for calculation of deferred corporate income tax</b>	<b>(32,051)</b>	<b>(38,094)</b>	<b>(32,002)</b>	<b>(38,118)</b>
Tax rate	15%	15%	15%	15%
<b>Deferred corporate income tax (asset)/ liability at the end of the period</b>	<b>(4,829)</b> 21	<b>(5,736)</b> 21	<b>(4,801)</b> -	<b>(5,718)</b> -

The Group's and Bank's management believes that there is reasonable certainty that future taxable profit will be sufficient to fully recover the recognised deferred tax asset in the taxation periods following the reporting period.

	Group 01/01/2011- 30/06/2011 LVL'000	Group 01/01/2010- 30/06/2010 LVL'000	Bank 01/01/2011- 30/06/2011 LVL'000	Bank 01/01/2010- 30/06/2010 LVL'000
<b>Deferred corporate income tax at the beginning of the period</b>	<b>(5,736)</b> 21	<b>(5,458)</b> 22	<b>(5,718)</b> -	<b>(5,079)</b> -
Increase/ (decrease) charged to the statement of comprehensive income for the period	1,016	(782)	1,016	(814)
(Decrease)/ increase attributable to fair value revaluation reserve under equity	(138)	179	(138)	179
Adjustment for the previous periods	29	31	39	31
<b>Deferred corporate income tax (asset)/ liability at the end of the period</b>	<b>(4,829)</b> 21	<b>(6,030)</b> 22	<b>(4,801)</b> -	<b>(5,683)</b> -

## Note 8

### Financial assets by risk ratings

The tables below demonstrate the Group's and Bank's financial assets in breakdown by risk rating groups. Loans to customers are assigned internal ratings where higher-rating assets are standard assets with a sound credit standing, while lower-rating assets are those assets which have doubtful credit quality and require close monitoring by the Group and the Bank.

Balances due from credit institutions and securities are granted credit ratings assigned by rating agencies (see Note 16). Higher-rating assets represent investment-grade assets, i.e., assets having a rating of no lower than BBB-, while lower-rating assets represent assets rated below investment grade.

Financial assets of the Group by risk rating:

	30.06.2011						31.12.2010			
	Higher rating	Lower rating	Gross financial assets	Allowance for credit losses	Net financial assets	Higher rating	Lower rating	Gross financial assets	Allowance for credit losses	Net financial assets
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>Financial assets</b>										
Cash and deposits with central banks	72,865	-	<b>72,865</b>	-	<b>72,865</b>	82,120	-	<b>82,120</b>	-	<b>82,120</b>
Balances due from credit institutions	391,777	32,520	<b>424,297</b>	-	<b>424,297</b>	305,988	19,364	<b>325,352</b>	-	<b>325,352</b>
Financial assets at fair value through profit or loss	21,208	450	<b>21,658</b>	-	<b>21,658</b>	22,693	679	<b>23,372</b>	-	<b>23,372</b>
Available-for-sale financial assets	164,555	35,470	<b>200,025</b>	(137)	<b>199,888</b>	130,298	38,423	<b>168,721</b>	(64)	<b>168,657</b>
Held-to-maturity investments	134,989	23,259	<b>158,248</b>	(135)	<b>158,113</b>	139,252	15,938	<b>155,190</b>	(78)	<b>155,112</b>
Loans and receivables	436,859	116,881	<b>553,740</b>	(59,057)	<b>494,683</b>	458,632	136,876	<b>595,508</b>	(66,636)	<b>528,872</b>
Incl. debt securities	-	-	-	-	-	606	11,657	12,263	(1,202)	11,061
Loans to customers	436,859	116,881	553,740	(59,057)	494,683	458,026	125,219	583,245	(65,434)	517,811
Mortgage loans	293,586	94,624	388,210	(43,156)	345,054	304,892	103,163	408,055	(46,659)	361,396
Business loans	124,416	21,808	146,224	(15,413)	130,811	134,186	21,298	155,484	(17,971)	137,513
Consumer loans	1,065	142	1,207	(113)	1,094	1,067	258	1,325	(236)	1,089
Other loans	17,792	307	18,099	(375)	17,724	17,881	500	18,381	(568)	17,813
<b>Total financial assets</b>	<b>1,222,253</b>	<b>208,580</b>	<b>1,430,833</b>	<b>(59,329)</b>	<b>1,371,504</b>	<b>1,138,983</b>	<b>211,280</b>	<b>1,350,263</b>	<b>(66,778)</b>	<b>1,283,485</b>

Financial assets of the Bank by risk rating:

	30.06.2011						31.12.2010			
	Higher rating	Lower rating	Gross financial assets	Allowance for credit losses	Net financial assets	Higher rating	Lower rating	Gross financial assets	Allowance for credit losses	Net financial assets
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>Financial assets</b>										
Cash and deposits with central banks	72,865	-	72,865	-	72,865	82,120	-	82,120	-	82,120
Balances due from credit institutions	391,777	32,474	424,251	-	424,251	305,988	19,338	325,326	-	325,326
Financial assets at fair value through profit or loss	21,208	450	21,658	-	21,658	22,693	679	23,372	-	23,372
Available-for-sale financial assets	164,555	35,470	200,025	(137)	199,888	130,298	38,423	168,721	(64)	168,657
Held-to-maturity investments	134,989	23,259	158,248	(135)	158,113	139,252	15,938	155,190	(78)	155,112
Loans and receivables	438,648	116,881	555,529	(59,057)	496,472	458,321	136,876	595,197	(66,636)	528,561
Incl. debt securities	-	-	-	-	-	606	11,657	12,263	(1,202)	11,061
Loans to customers	438,648	116,881	555,529	(59,057)	496,472	457,715	125,219	582,934	(65,434)	517,500
Mortgage loans	293,586	94,624	388,210	(43,156)	345,054	304,892	103,163	408,055	(46,659)	361,396
Business loans	126,205	21,808	148,013	(15,413)	132,600	133,913	21,298	155,211	(17,971)	137,240
Consumer loans	1,065	142	1,207	(113)	1,094	1,067	238	1,325	(236)	1,089
Other loans	17,792	307	18,099	(375)	17,724	17,843	500	18,343	(568)	17,775
<b>Total financial assets</b>	<b>1,224,042</b>	<b>208,534</b>	<b>1,432,576</b>	<b>(59,329)</b>	<b>1,373,247</b>	<b>1,138,672</b>	<b>211,254</b>	<b>1,349,926</b>	<b>(66,778)</b>	<b>1,283,148</b>

## Note 9

### Balances due from credit institutions

As at 30 June 2011, the Bank had established correspondent relationships with 28 (29) credit institutions registered in the OECD area (including EMU and EU countries), 7 (6) credit institutions registered in Latvia, and 20 (20) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure as at 30 June 2011:

	Other EU					Total
	Latvia	EMU countries	Member States	Other OECD countries	Other countries	
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Demand deposits with credit institutions</b>						
Correspondent account balances	797	23,016	1,787	19,567	21,422	66,589
Overnight deposits	-	193,031	82,563	41,565	600	317,759
<b>Total demand deposits with credit institutions</b>	<b>797</b>	<b>216,047</b>	<b>84,350</b>	<b>61,132</b>	<b>22,022</b>	<b>384,348</b>
<b>Other balances due from credit institutions</b>						
Security deposits	-	11,139	3,049	-	-	14,188
Term deposits	-	7,337	-	-	-	7,337
Other balances	-	-	-	-	18,424	18,424
<b>Total other balances due from credit institutions</b>	<b>-</b>	<b>18,476</b>	<b>3,049</b>	<b>-</b>	<b>18,424</b>	<b>39,949</b>
<b>Total balances due from credit institutions</b>	<b>797</b>	<b>234,523</b>	<b>87,399</b>	<b>61,132</b>	<b>40,446</b>	<b>424,297</b>

Balances due from credit institutions to the Group by geographical area and structure as at 31 December 2010:

	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	295	18,386	1,475	41,027	14,049	75,232
Overnight deposits	-	72,433	-	107,001	28	179,462
<b>Total demand deposits with credit institutions</b>	<b>295</b>	<b>90,819</b>	<b>1,475</b>	<b>148,028</b>	<b>14,077</b>	<b>254,694</b>
<b>Other balances due from credit institutions</b>						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
<b>Total other balances due from credit institutions</b>	<b>-</b>	<b>13,901</b>	<b>44,484</b>	<b>-</b>	<b>12,273</b>	<b>70,658</b>
<b>Total balances due from credit institutions</b>	<b>295</b>	<b>104,720</b>	<b>45,959</b>	<b>148,028</b>	<b>26,350</b>	<b>325,352</b>

Balances due from credit institutions to the Bank by geographical area and structure as at 30 June 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	786	23,016	1,787	19,567	21,387	66,543
Overnight deposits	-	193,031	82,563	41,565	600	317,759
<b>Total demand deposits with credit institutions</b>	<b>786</b>	<b>216,047</b>	<b>84,350</b>	<b>61,132</b>	<b>21,987</b>	<b>384,302</b>
<b>Other balances due from credit institutions</b>						
Security deposits	-	11,139	3,049	-	-	14,188
Term deposits	-	7,337	-	-	-	7,337
Other balances	-	-	-	-	18,424	18,424
<b>Total other balances due from credit institutions</b>	<b>-</b>	<b>18,476</b>	<b>3,049</b>	<b>-</b>	<b>18,424</b>	<b>39,949</b>
<b>Total balances due from credit institutions</b>	<b>786</b>	<b>234,523</b>	<b>87,399</b>	<b>61,132</b>	<b>40,411</b>	<b>424,251</b>

Balances due from credit institutions to the Bank by geographical area and structure as at 31 December 2010:

	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	283	18,386	1,475	41,027	14,035	75,206
Overnight deposits	-	72,433	-	107,001	28	179,462
<b>Total demand deposits with credit institutions</b>	<b>283</b>	<b>90,819</b>	<b>1,475</b>	<b>148,028</b>	<b>14,063</b>	<b>254,668</b>
<b>Other balances due from credit institutions</b>						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
<b>Total other balances due from credit institutions</b>	<b>-</b>	<b>13,901</b>	<b>44,484</b>	<b>-</b>	<b>12,273</b>	<b>70,658</b>
<b>Total balances due from credit institutions</b>	<b>283</b>	<b>104,720</b>	<b>45,959</b>	<b>148,028</b>	<b>26,336</b>	<b>325,326</b>

As at 30 June 2011, the Group's and Bank's major balances due from credit institutions registered in the EU and OECD area were as follows: LVL 54 (138) million due from JP Morgan Chase Bank NA, LVL 49 (27) million due from DZ bank, LVL 49 million due from Landesbank Berlin AG, LVL 49 million due from Clydesdale bank PLC, and LVL 44 (61) million due from Commerzbank AG.

## Note 10

### 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 30.06.2011			Group/ Bank 31.12.2010			
	At fair value LVL'000	Available-for-sale LVL'000	Held-to-maturity LVL'000	At fair value LVL'000	Available-for-sale LVL'000	Held-to-maturity LVL'000	Loans and receivables LVL'000
<b>Latvia</b>							
Central governments	-	3,505	961	-	-	-	3,406
Credit institutions	-	15	176	-	15	-	176
<b>International organisations</b>	-	3,273	2,124	-	2,373	2,204	-
<b>EU Member States</b>							
Central governments	8,308	1,536	3,885	8,134	1,429	3,351	-
Credit institutions	5,242	717	169	5,755	755	164	-
Corporate companies	-	-	-	-	-	-	267
<b>Other OECD countries</b>							
Central governments	645	147,573	98,000	-	106,985	107,185	-
Credit institutions	2,520	-	-	2,743	-	-	-
Corporate companies	-	6	-	-	13	-	-
<b>Other countries</b>							
Central governments and central banks	-	4,860	4,656	-	5,461	3,423	247
Municipalities	-	898	473	-	457	516	501
Financial auxiliary	-	117	-	-	-	-	-
Credit institutions	2,501	24,502	21,784	2,735	33,682	17,313	5,010
Corporate companies	-	10,846	25,885	-	15,261	20,956	1,454
<b>Total fixed income securities, net</b>	<b>19,216</b>	<b>197,848</b>	<b>158,113</b>	<b>19,367</b>	<b>166,431</b>	<b>155,112</b>	<b>11,061</b>

The Group's/ Bank's fixed income securities totalled LVL 375 (352) million as at 30 June 2011. Most of these assets (84.4%) have been invested by the Bank in investment-grade securities (see Note 16). 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.

In the reporting period, impairment was recognised for an available-for-sale securities of other countries' credit institutions totalling LVL 789 thousand. Given the above, in the reporting period the annual yield of the Bank's securities portfolio was 3.94%, while the income earned from the securities portfolio totalled LVL 7.8 million.

## Note 11

### Investments in subsidiaries

As at 30 June 2011, the Bank held shares in the following subsidiaries:

Company	Country of incorporation	30.06.2011				31.12.2010	
		Share capital	Equity	Bank's share		Share capital	Equity
				(% of total share capital)	(%)		
LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	(%)	
ABLV Transform Partnership, KS	LV	51,305	50,973	99.9997	49,196	45,345	99.9997
ABLV Private Equity Fund 2010, KS	LV	3,514	3,605	100	3,514	3,574	100
SIA New Hanza City	LV	2,900	2,874	100	2,900	2,884	100
SIA Elizabetes 21a	LV	2,500	1,755	91.6	2,500	1,828	91.6
ABLV Asset Management, IPAS	LV	400	552	100	400	447	100
ABLV Capital Markets, IBAS	LV	400	767	100	400	1,060	100
ABLV Consulting Services, AS	LV	375	391	100	375	385	100
Transform 1, SIA	LV	500	196	100	200	(7)	100
ABLV Private Equity Mangement, SIA	LV	120	153	100	120	148	100
ABLV Corporate Services, SIA	LV	20	20	100	20	40	100
<b>Total, gross</b>		<b>62,034</b>	<b>61,286</b>		<b>59,625</b>	<b>55,704</b>	
Impairment expense		(860)			(754)		
<b>Total, net</b>		<b>61,174</b>			<b>58,871</b>		

During the reporting period, the Bank increased its investment in the share capital of ABLV Transform Partnership, KS by EUR 3 million. The Bank also increased the share capital of Transform 1, SIA by LVL 300 thousand. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development.

As at 30 June 2011, funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation amounted to LVL 31,647 (32,619) thousand. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 30 June 2011 was LVL 226,845 (280,021) thousand.

In the reporting period, the investment fund ABLV Private Equity Fund 2010, KS acquired 40% shares of SIA ORTO.

## Note 12

### Deposits

Customer profile	Group	Group	Bank	Bank
	30/06/2011	31/12/2010	30/06/2011	31/12/2010
	LVL'000	LVL'000	LVL'000	LVL'000
Corporate companies	1,167,050	1,091,402	1,174,052	1,102,801
Private individuals	137,266	122,476	137,266	122,476
State-owned enterprises	10,516	16,596	10,516	16,596
Financial institutions	6,854	4,417	6,854	4,417
Non-profit institutions serving private individuals	1,556	1,500	1,556	1,500
Municipalities	307	400	307	400
<b>Total deposits</b>	<b>1,323,549</b>	<b>1,236,791</b>	<b>1,330,551</b>	<b>1,248,190</b>

The deposits with the Group and the Bank grew rapidly during the reporting period. The Group's/ Bank's top 20 customers in terms of the deposit amount account for 19% (20%) of the total deposits.

Geographical profile of customer residence	Group	Group	Bank	Bank
	30/06/2011	31/12/2010	30/06/2011	31/12/2010
	LVL'000	LVL'000	LVL'000	LVL'000
Other countries	826,456	737,982	826,456	737,982
Other EU Member States	227,512	222,754	227,512	222,754
Other OECD countries	115,883	125,535	115,883	125,535
EMU countries	77,819	96,802	77,819	96,802
Latvia	75,879	53,718	82,881	65,117
<b>Total deposits</b>	<b>1,323,549</b>	<b>1,236,791</b>	<b>1,330,551</b>	<b>1,248,190</b>

Of the total deposits placed with the Group and the Bank, 83.1% (82.6%) are from customers whose beneficiaries are CIS residents.

## Note 13

### Related party disclosures

Related parties are defined as shareholders who have the ability to exercise significant influence over the Group and the Bank, members of the Council and the Board, key management personnel, their close relatives, and companies in which they have a controlling interest, as well as subsidiaries and associates of the Group.

Loans issued to related parties	Group		Group	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010
	Amount	Terms	Amount	Terms
	LVL'000		LVL'000	
Management	136	0%-15%	136	0%-24%
Related legal entities	1,904	6%-24%	1,930	0%-24%
Other related private individuals	831	2%-22%	514	2%-22%
<b>Total loans issued to related parties</b>	<b>2,871</b>		<b>2,580</b>	
Loan commitments and other memorandum items	317		610	
Impairment expense	-		-	
<b>Total loans and memorandum items, net</b>	<b>3,188</b>		<b>3,190</b>	

	Bank		Bank	
	30.06.2011		31.12.2010	
	Amount	Terms	Amount	Terms
	LVL'000		LVL'000	
<b>Loans issued to related parties</b>				
Management	165	0%-15%	136	0%-24%
Related legal entities	1,904	6%-24%	1,930	0%-24%
Other related private individuals	488	2%-22%	514	2%-22%
Subsidiaries	11,133	2%-24%	8,764	6%-24%
<b>Total loans issued to related parties</b>	<b>13,690</b>		<b>11,344</b>	
Loan commitments and other memorandum items	889		2,850	
Impairment expense	(183)		-	
<b>Total loans and memorandum items, net</b>	<b>14,396</b>		<b>14,194</b>	

According to the FCMC regulations, the credit exposure to a party other than a credit institution or a group of non-related entities (other than credit institutions) may not exceed 25% of Bank's equity. The credit exposure to a credit institution may not exceed 25% of Bank's equity or EUR 100 million, whichever is the highest, if Bank's equity exceeds EUR 100 million. Meanwhile, the total credit exposure to all related parties may not exceed 15% of Bank's equity. As at 30 June 2011, the Bank was in compliance with the above requirements.

As at 30 June 2011, the deposits of related parties with the Group amounted to LVL 4,141 (4,735) thousand, while those with the Bank amounted to LVL 13,019 (16,371) thousand, including subordinated deposits of LVL 49 (54) thousand with the Group and the Bank. All related party deposits bear standard interest rates offered by the Bank. As at 30 June 2011, related parties held subordinated bonds of the Bank totalling LVL 182 (187) thousand and LVL 81 (86) thousand with the Group and the Bank respectively.

Administrative and other expense from transactions with related parties for the reporting period were LVL 1,200 (523) thousand.

Interest income and expense from transactions with related parties:

	Group	Group	Bank	Bank
	01/01/2011 - 30/06/2011	01/01/2010 - 30/06/2010	01/01/2011 - 30/06/2011	01/01/2010 - 30/06/2010
	LVL'000	LVL'000	LVL'000	LVL'000
Interest income	77	70	364	70
Interest expense	(16)	(34)	(24)	(107)

## Note 14

### Subordinated liabilities

As at 30 June 2011, the Group's and Bank's subordinated liabilities of LVL 43,369 (46,883) thousand comprised subordinated bonds amounting to LVL 22,458 (22,921) thousand and subordinated loans amounting to LVL 20,911 (23,962) thousand.

In 2008, the Bank initiated two subordinated bond issues - in US dollars and euro – with the original issue amount of USD 20 million (issuing 200,000 subordinated bonds, each having the par value of USD 100) and EUR 12.5 million (issuing 125,000 subordinated bonds, each having the par value of EUR 100) respectively. All the bonds issued in 2008 mature on 1 October 2018. Starting from 1 October 2013, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 13% will be paid from 1 October 2013.

In 2010, the Bank issued new subordinated bonds totalling USD 20 million, i.e., 200,000 subordinated bonds, each having the par value of USD 100. The bonds mature on 15 September 2020. Starting from 15 September 2015, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 8% will be paid from 16 September 2015.

As at 30 June 2011, the carrying amount of all the subordinated bonds was USD 27,1 (27,1) million and EUR 7,7 (7,7) million. The issues of the subordinated bonds were closed and these bonds are not registered with Riga Stock Exchange.

The Bank also received subordinated loans for the total amount of USD 41 (43) million and EUR 1,1 (1,2) 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.

In the reporting period, the Bank repaid the subordinated loans of LVL 1,3 (7,7) million before the contractual maturity dates.

The analysis of subordinated loans as at 30 June 2011:

	Loan amount	Accumulated interest	% of total subordinated capital	Interest rate	Currency	Date of the agreement	Date of maturity
	LVL'000	LVL'000	(%)				
<b>Subordinated deposits</b>							
<b>Major lenders</b>							
Harpic Group LTD	7,335	31	18.59	5.05	USD	14.08.2008	19.08.2018
Multicross LLC	4,890	29	12.39	7.15	USD	19.03.2007	02.04.2017
Euro swiss LLC	4,890	29	12.39	7.15	USD	19.03.2007	02.04.2017
<b>Major lenders in total</b>	<b>17,115</b>	<b>89</b>					
<b>Other lenders</b>							
residents	171	-	0.43	8.13	USD		
non-residents	2,783	14	7.05	2.83 - 8.39	USD		
non-residents	738	1	1.87	3.53-3.76	EUR		
<b>Other lenders in total</b>	<b>3,692</b>	<b>15</b>					
<b>Total subordinated deposits</b>	<b>20,807</b>	<b>104</b>					

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. Their weighted average maturity is 3.18 (3.06) years.

## Note 15

### Paid-in share capital

As at 30 June 2011, the paid-in share capital of the Bank amounted to LVL 16,5 million (16,5 million). The share capital consists of ordinary shares with voting rights only. All the shares have the par value of LVL 150 (150) each. As at 30 June 2011, the Bank had 125 (128) shareholders, including 12 (11) legal entities and 113 (117) private individuals, holding the total of 110,000 (110,000) shares.

The members of the Board directly hold 86.16% (86.16%) of the share capital, while the members of the Council – 5.69% (5.69%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

	30/06/2011		31/12/2010	
	Paid-in share capital	% of total paid in share capital	Paid-in share capital	% of total paid in share capital
	LVL'000	(%)	LVL'000	(%)
<b>Olegs Fils</b>	<b>7,086</b>	<b>42.95</b>	<b>7,086</b>	<b>42.95</b>
<b>Group of related shareholders</b>				
Erests Bemis	6,932	42.01	6,932	42.01
Nika Berne	154	0.94	154	0.94
<b>Total group of related shareholders</b>	<b>7,086</b>	<b>42.95</b>	<b>7,086</b>	<b>42.95</b>

## Note 16

## Credit risk

Credit risk is exposure to potential losses in case the Group's or Bank's counterparty or debtor will be unable to pay the contractual obligations to the Group or the Bank.

### Credit risk management framework

Credit risk is managed according to the credit policy. Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.

To assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories.

The Group and the Bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are granted risk/ monitoring factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. As collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

For effective credit risk management, the Bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The Bank analyses the quality of the loan portfolio on a regular basis. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc.

The Group and the Bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with financial institutions, the Bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date.

The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis. Regular stress tests of the Bank's loan portfolio are performed to assess the credit risk exposure and identify potential critical situations.

### Credit risk concentration

To mitigate concentration risk, the Group and the Bank apply diversification and a system of limits. The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located. The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers.

The credit risk concentration is also analysed by estimating the credit exposure ratio to equity.

According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity.

Ten major exposures as at 31 June 2011 amounted to 13.4% (14.2%) of the total Group's and Bank's net loan portfolio.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank review this part of the loan portfolio on a regular basis. Although the 1H2011 there is observed of the real estate market activity improved, the potential for development can not be assessed precisely which affected customer financing in this sector. No financing options for new real estate development projects are being considered at present.

Apart from the effective management of credit risk concentration, the Bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.

The Group's and Bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.

The Group's and Bank's securities portfolios by the credit rating classes:

Credit ratings	Group/ Bank					Group/ Bank				
	30/06/2011					31/12/2010				
	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity		At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	Loans and receivables
	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
AAA to AA-	19,216	147,572	2,766	102,487	19,362	106,985	2,840	111,604	-	-
A+ to A-	-	-	-	-	-	-	-	164	-	-
BBB+ to BBB-	-	-	14,216	32,501	-	-	20,590	27,484	606	-
BB+ to BB-	-	-	16,224	11,341	-	-	18,447	6,795	3,652	-
B+ to B-	-	-	15,439	10,660	5	-	16,325	9,003	4,451	-
Below B-	-	-	740	948	-	-	784	62	2,133	-
No rating	-	-	891	176	-	-	460	-	219	-
Shares and investments in funds	450	-	2,040	-	674	-	2,226	-	-	-
<b>Securities portfolio, net</b>	<b>19,666</b>	<b>147,572</b>	<b>52,316</b>	<b>158,113</b>	<b>20,041</b>	<b>106,985</b>	<b>61,672</b>	<b>155,112</b>	<b>11,061</b>	

## Note 17

### Financial risks

#### a) Liquidity risk

Liquidity is the Group's and Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Group's and Bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. The Risk Management Division is responsible for liquidity risk evaluation and control. The Chief Financial Officer (CFO) is responsible for liquidity management and the Financial Market Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.

For ordinary liquidity risk management purposes, the Bank applies the following indicators having certain limits and restrictions set:

- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- current liquidity ratio;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

To timely identify the potential deterioration in the liquidity position, an early warning indicators system has been designed:

- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of "Less than 30 days";
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the Bank;
- negative information reported in the mass media about the Bank or its related parties that may harm the Bank's reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

### **Contingency liquidity risk**

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the Bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The Group and the Bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of Bank's contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a Bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity.

The Bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the Bank's liquidity management documents need to be revised.

The management of the Group and the Bank continued to focus specifically on liquidity issues. Owing to the adequate liquidity risk management policy and internal control and communication system, the Bank managed to ensure and maintain a high liquidity ratio - as at 30 June 2011 the liquidity ratio reached 73.83% (68.10%). The FCMC stipulates that the Bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities.

Liquidity ratios of the Group and the Bank:

	<b>Group/ Bank</b>			<b>Group/ Bank</b>		
	<b>01/01/2011- 30/06/2011</b>			<b>01/01/2010- 30/06/2010</b>		
	Highest	Lowest	Average	Highest	Lowest	Average
<b>Liquidity ratio</b>	%	%	%	%	%	%
on demand	46.8	21.0	41.6	43.7	17.7	37.2
less than 30 days (as required by the FCMC)	76.0	68.2	72.6	66.6	56.8	61.4
less than 90 days	76.8	68.9	72.4	67.0	55.0	60.8

### **Market risks**

Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates,

interest rates and other factors. Market risk identification, assessment and management are prescribed by several regulations, i.e., the Interest Rate Risk Management Policy, the Derivative Financial Instrument Policy, and the Bank's Securities Portfolio Policy.

The "loss" indicator is used by the Bank as one of the instruments to manage market risk inherent in the securities portfolio in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio.

The exposure of the trading portfolio to market risk and the capital charge for market risk is determined according to the standardised approach described in the FCMC Regulations for Calculation of Minimum Capital Requirement, calculating the general position risk of debt securities under the maturity method.

#### Currency risk

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Bank has major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Bank's open position in EUR is minimal. The Bank's open currency position in USD is hedged by using currency forwards/ futures. As at 30 June 2011, the Bank's open currency position in USD was 2.66% of Bank's equity. The Bank controls this risk by applying the limits specified in the Limits Policy. As at 30 June 2011, all the above limits were met.

The Bank's Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The Law on Credit Institutions requires that Bank's open positions in each foreign currency may not exceed 10% of equity and that the total Bank's foreign currency open position may not exceed 20% of equity. As at 30 June 2011, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

#### Interest rate risk

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance.

The Risk Management Division ensures interest rate risk assessment and control for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.

Interest rate risk is assessed both in terms of income and economic value. The term *economic value* means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:

- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/maturity date;
- financial instruments with a variable interest rate are presented according to the next contractual repricing date or interest rate repricing date.

Derivatives are presented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

The effect of interest rate risk on the economic value is calculated according to the duration method, i.e., the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/loss is analysed applying the gap analysis, i.e., analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The Bank performs regular interest rate stress tests aimed at assessing the effect of adverse changes in interest rates on the Bank's income and economic value in the event of a tough market situation.

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in the six-month periods ended 30 June 2011 and 2010:

		Group/ Bank		Group/ Bank	
		01/01/2011-30/06/2011		01/01/2010-30/06/2010	
		+100bps LVL'000	-100bps LVL'000	+100bps LVL'000	-100bps LVL'000
<b>Total for all currencies</b>	<b>Effect of changes on equity</b>	<b>(1,076)</b>	<b>1,076</b>	<b>(1,304)</b>	<b>1,304</b>
	<b>Effect of changes on profit/ loss</b>	<b>3,020</b>	<b>(3,020)</b>	<b>4,382</b>	<b>(4,382)</b>
<i>USD</i>	Effect of changes on equity	(1,023)	1,023	(1,302)	1,302
	Effect of changes on profit/ loss	829	(829)	1,983	(1,983)
<i>EUR</i>	Effect of changes on equity	-	-	(2)	2
	Effect of changes on profit/ loss	1,677	(1,677)	2,005	(2,005)
<i>LVL</i>	Effect of changes on equity	(53)	53	-	-
	Effect of changes on profit/ loss	514	(514)	394	(394)

## Note 18

### Non-financial risks

During the course of their operations, the Group and the Bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

#### Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the Group and the Bank.

The operational risk management policy is approved by the Council of the Bank. The Board of the Bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the Group and the Bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.

The key principles allowing efficient operational risk management are as follows:

- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

To manage the Group's and Bank's exposure to operational risk, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the Group and the Bank;
- analysis of operational risk events and losses;

- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the Bank to identify potential losses and take all required measures to prevent such losses.

In the reporting period, an operational risk stress test was carried out to assess the related potential loss. The test was based on external and internal events registered in the risk event database. Individual risk assessment models were designed for low-risk events and low-probability (rare) events having a significant effect (potential losses). The scenarios included changes in the Bank's operational environment affected by both internal and external factors and the Bank assessed a potential effect on its income and ability to continue as a going concern in the event of any material deterioration of circumstances in the sectors having the highest operational risk concentration for the Bank's risk profile.

During the reporting period, approximately 489 (739) events were registered in the database, of which only 39 (52) events were those which resulted in actual losses amounting to LVL 11 (17) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the Group's and Bank's employees in the operational risk management and to the effectiveness of the control environment.

#### Information system risk

The Bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the Bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital charge for operational risk. The Bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital charge for information system risk.

## Note 19

### 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 2011 will not result in material losses for the Bank and/ or the Group.

## Note 20

### Events after reporting date

Except as disclosed below, 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.

In July 2011, the Bank established its subsidiary ABLV Luxembourg S.A. to research the financial market and business opportunities in Luxembourg. In August 2011, the Bank has made decision to significantly reduce their investment in U.S. Treasuries notes.