AS CITADELE BANKA

INTERIM FINANCIAL REPORT
FOR THE 6 MONTH PERIOD ENDED 30 JUNE 2011

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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Management Report

Citadele Bank has Finished the First Half of 2011 with Profit

Citadele Bank was founded on 30 June 2010. The new Bank launched its independent activities on 1 August 2010 after the successful completion of the restructuring of Parex banka.

The aim of Citadele Bank is to become the most valuable financial group in the Baltic States, inspire people and companies to growth in order to facilitate regional development.

Citadele Bank finished the first half of 2011 with a profit and achieved better results during its first year of activity than anticipated in the Bank’s restructuring plan.

The Bank Develops Services and Offers Unique Products for Baltic Market

During the 1st half of 2011 Citadele Bank has continued working in three main segments: services for retail customers and small and medium enterprises in our branch office network, services for large enterprises and private wealth management.

During the 1st half of 2011, more than 6,691 new clients chose Citadele Bank’s services: Citadele has acquired over 5,300 new clients in the retail customer and small and medium enterprises segment; more than 100 new clients in the corporate services sector in Latvia, in excess of 300 new clients in Estonia; and in the private wealth management sector – over 840 new clients.

During the 1st half of 2011 Citadele Bank and American Express announced the continuation of their partnership whereby Citadele continues to possess exclusive rights to issue American Express® Cards and acquire merchants on to the American Express network in Latvia. Citadele Bank is the only collaboration partner of American Express® also in Lithuania. The bank also expanded the benefits offered by the Citadele payment card. Thus, for the first time in Latvia, a bank payment card with discounts for groceries is offered. During the 1st half of 2011 Citadele Bank was one of the leaders in the market of credit cards in Latvia.

With the aim of kick-starting its activities in the Latvian Real Estate domestic market, Citadele Bank started offering a new type of mortgage loans unprecedented in the Baltic States. The New Mortgage Loan enables the client to repay the loan by transferring ownership of the real estate to the Bank.

During the 1st half of 2011 Citadele carried out active corporate lending and worked on development of new loan offers. To support development of small, medium, and micro enterprises in Latvia, the Citadele Bank launched a new service for enterprises – credit funds of the European Investment Bank. The aim of the bank is to invest more than 100 million euro or 70.3 million Lats in entrepreneurship of Latvia during the course of a year.

According to the data of Association of Commercial Banks of Latvia for the 1st half of 2011: despite the total amount of loans issued since the beginning of 2011 in the banking sector in Latvia has decreased by 5.4%, Citadele Bank’s new loan sales were 7.2% share of market issued loans for residents thus achieving 4th place among banks in Latvia in terms of lending. Citadele ranks 3rd among the most active corporate lenders and it has a 9.1% share of the market in Latvia.

New loans during 1st half of 2011 were mostly granted to companies working in agriculture (36% of the total amount of loans issued), services industry (31%) and transport industry (13%).

Awareness of Citadele Brand in the Society – 92%

According to data of market and public opinion research centre SKDS, during its first year Citadele succeeded at increasing the share of Latvia’s residents who see the Bank as a stable, safe, convenient and advantageous institution. After foundation, the general awareness of Citadele Bank became significantly higher than the one of other banks that are active in Latvia’s market for a longer period.

A study conducted by Data Serviss Finance Track research agency also serves as proof of this tendency – Citadele’s results are the 4th best on the market in all awareness indices – the total awareness of the Bank is 92%. The study shows that clients became more ready to suggest Citadele’s services to others after the Bank changed its brand. The indicator of positive feedback continues growing.

Business Results of the Bank and Its Group in 1st Half of 2011

Citadele Bank has finished the first half of 2011 with profit before impairment charges and tax of 5.4 million Lats (Group 4.6 million Lats). This resulted in net profit of 0.2 million Lats (Group 0.3 million Lats) after taxes and achieved better results during its first year of activity than anticipated in the Bank’s restructuring plan. Business results of the Bank were influenced by slower general economic growth in Latvia than previously anticipated as well as prudent provisioning.

During the 1st half of 2011 Citadele Bank completely redeemed Eurobonds with the residual nominal value of 97.7 million Euros. Thus, Citadele has successfully performed its long-term liabilities.

According to the financial data for the first half of 2011, Citadele’s total assets amount to 1.25 billion Lats (Group – 1.42 billion Lats). The Bank’s loan portfolio is 641 million Lats (Group – 736 million Lats) and the amount of capital and reserves is 84 million Lats (Group - 83 million Lats). The total amount of deposits with Citadele Bank at the end of the first half year of 2011 reached 1.01 billion Lats (Group – 1.18 billion Lats).

The bank’s capital asset ratio is reported to be 13.0% (Group – 10.7%) and its liquidity ratio is a healthy 62%.

According to data as of 30 June 2011, Citadele is the third largest bank in Latvia in terms of attracted deposits (9.7% market share), the sixth largest bank according to the amount of assets (6.5% market share) and the fifth largest by the total amount of loans issued (5.2% market share).

Repayment of State-invested Funds and the Bank’s Investment in Latvia’s Economy

Highly appreciating the support provided by Latvian government, one of Citadele Bank’s priorities continues to be repayment of State-invested funds within the shortest period of time possible and encouragement of Latvia's economic activity.

In January 2011, half a year ahead of schedule, Citadele reimbursed 32.8 million Lats or 46.6 million euro to the State. For the 1st half of 2011 Bank's interest expense on the received State support amounted to 4.6 million Lats.

Citadele has invested funds in Latvia’s economy in the shape of loan funds issued to enterprises. In addition it has supported acquisition of resources from EU structural funds in Latvia – a significant part of enterprises to whom Citadele issued loans are companies which needed this funding for implementing projects co-funded by the European Union.

The Bank is Working to Drive Profitability

Citadele Bank expects to maintain its profitability during 2011, despite the tough conditions still being experienced in the marketplace. In order to facilitate economic growth of Latvia, Citadele Bank plans to issue substantial funding to Latvian companies and retail customers in 2011, paying special attention to Latvian companies with local capital.

Juris Jākobsons
Chairman of the Management Board

Klāvs Vasks
Chairman of the Council

Riga,
24 August 2011

Council of the Bank

Name	Position
Klāvs Vasks	Chairman of the Council
Juris Vaskāns	Deputy chairman of the Council
Ģirts Freibergs	Member of the Council
Laurence Philip Adams	Member of the Council
Geoffrey Dunn	Member of the Council

Management Board of the Bank

Name	Position
Juris Jākobsons	Chairman of the Management Board, p.p.
Guntis Beļavskis	Member of the Management Board, p.p.
Valters Ābele	Member of the Management Board
Kaspars Cikmačs	Member of the Management Board
Philip Nigel Allard	Member of the Management Board

There were no changes in management bodies of the Bank during the reporting period and until the signing of these financial statements.

The Management of AS Citadele Banka (hereinafter – the Bank) are responsible for the preparation of the interim condensed financial statements of the Bank as well as for the preparation of the interim condensed consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The interim condensed financial statements set out on pages 7 to 23 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 the results of their operations, changes in shareholders' equity and cash flows for the six month period then ended. The management report set out on pages 3 to 4 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The interim condensed financial statements are prepared in accordance with International Accounting Standard (IAS) 34 on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Citadele Banka is 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. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Juris Jākobsons
Chairman of the Management Board

Klāvs Vasks
Chairman of the Council

Riga,
24 August 2011

		LVL 000's	
	Notes	01/01/2011-30/06/2011 Group	01/01/2011-30/06/2011 Bank
Interest income		30,268	26,519
Interest expense		(18,276)	(17,110)
Net interest income		11,992	9,409
Commission and fee income		12,675	9,470
Commission and fee expense		(3,485)	(2,833)
Net commission and fee income		9,190	6,637
Gain on transactions with financial instruments, net		3,235	2,287
Other income		3,414	3,846
Other expense		(583)	(515)
Administrative expense		(19,729)	(15,228)
Amortisation and depreciation charge		(2,832)	(1,058)
Impairment charges and reversals, net	4	(4,330)	(4,799)
Gain on disposal of assets held for sale, net		(96)	-
Profit before taxation		261	579
Corporate income tax		25	(397)
Net profit for the period		286	182
Attributable to:			
Equity holders of the Bank		286	182
Minority interest		-	-
		286	182

The notes on pages 12 to 23 are an integral part of these interim condensed financial statements.

	LVL 000's	
	01/01/2011-30/06/2011 Group	01/01/2011-30/06/2011 Bank
Net profit for the period	286	182
Other comprehensive income:		
Fair value revaluation reserve: held-to-maturity securities		
Amortisation	684	367
Deferred income tax charged directly to equity	(15)	-
Fair value revaluation reserve: available-for-sale securities		
Impairment of securities	18	18
Fair value revaluation reserve charged to statement of income	(471)	(45)
Change in fair value of available for sale securities	(40)	(299)
Deferred income tax charged directly to equity	(4)	-
Other reserves		
Foreign exchange revaluation reserve	654	-
Other comprehensive income for the period	826	41
Total comprehensive income for the period	1,112	223
Attributable to:		
Equity holders of the Bank	1,112	223
Minority interest	-	-
	1,112	223

The notes on pages 12 to 23 are an integral part of these interim condensed financial statements.

AS “Citadele banka”
Condensed Interim Balance Sheets as at 30 June 2011 and 31 December 2010

	Notes	30/06/2011 Group	31/12/2010 Group	30/06/2011 Bank	31/12/2010 Bank
		LVL 000's			
Assets					
Cash and deposits with central banks		132,479	187,220	124,543	177,348
Balances due from credit institutions		153,364	219,624	156,799	211,608
Securities held for trading:					
- fixed income	6	170	140	5	4
- shares and other non-fixed income		34	34	-	-
Derivative financial instruments		1,372	2,670	1,377	2,716
Financial assets designated at fair value through profit and loss		4,785	3,318	-	-
Available-for-sale securities:					
- fixed income	6	159,073	187,524	107,241	143,498
- shares and other non-fixed income		8,734	9,467	8,669	9,429
Loans and receivables to customers	5	736,246	794,329	640,816	691,098
Held-to-maturity securities	6	127,813	127,572	117,179	117,280
Current income tax assets		161	195	-	-
Non-current assets and disposal groups classified as held for sale		2,599	3,289	-	-
Fixed assets		35,607	38,072	3,166	3,910
Goodwill and intangible assets		1,832	2,060	1,228	1,256
Investments in subsidiaries	7	-	-	43,839	43,839
Investment property		846	904	-	-
Deferred income tax assets		29,963	30,100	29,825	29,980
Other assets		20,907	5,991	18,732	3,936
Total assets		1,415,985	1,612,509	1,253,419	1,435,902
Liabilities					
Derivative financial instruments		3,888	644	4,008	702
Financial liabilities designated at fair value through profit and loss		2,854	1,484	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	8	38,112	70,559	58,587	82,175
- deposits from customers	9	1,181,211	1,294,335	1,008,267	1,117,274
- issued debt securities		20,989	91,485	20,989	91,557
- other financial liabilities		23,301	7,333	17,571	-
Current income tax liabilities		79	188	-	-
Deferred income tax liabilities		-	491	-	-
Other liabilities		10,512	12,728	7,834	8,919
Subordinated liabilities	10	51,900	51,235	51,900	51,235
Total liabilities		1,332,846	1,530,482	1,169,156	1,351,862
Equity					
Paid-in share capital	11	103,000	103,000	103,000	103,000
Reserves		(1,336)	(2,162)	508	467
Accumulated losses		(18,525)	(18,811)	(19,245)	(19,427)
Total shareholders' equity attributable to the shareholders of the Bank		83,139	82,027	84,263	84,040
Minority interest		-	-	-	-
Total equity		83,139	82,027	84,263	84,040
Total liabilities and equity		1,415,985	1,612,509	1,253,419	1,435,902

The notes on pages 12 to 23 are an integral part of these interim condensed financial statements.

Changes in the Group's equity are as follows:

	LVL 000's						
	Attributable to equity holders of the Bank						
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Foreign exchange reserve	Restructuring reserve*	Accumulated losses	Total equity
Balances as at 30 June 2010	**4,000**	**-**	**-**	**-**	**-**	**-**	**4,000**
Issue of new shares	99,000	-	-	-	-	-	99,000
Restructuring (Note 2)	-	(2,031)	(1,985)	168	(3,561)	-	(7,409)
Net loss for the period	-	-	-	-	-	(18,811)	(18,811)
Other comprehensive income for the period	-	325	4,244	678	-	-	5,247
Balances as at 31 December 2010	**103,000**	**(1,706)**	**2,259**	**846**	**(3,561)**	**(18,811)**	**82,027**
Net profit for the period	-	-	-	-	-	286	286
Other comprehensive income for the period	-	669	(497)	654	-	-	826
Balances as at 30 June 2011	**103,000**	**(1,037)**	**1,762**	**1,500**	**(3,561)**	**(18,525)**	**83,139**

* When determining the assets and liabilities that were eligible for the transfer of undertaking that took place on 1 August 2010, the composition of assets and liabilities were determined on the parent of the predecessor bank, i.e. AS Parex Banka stand-alone accounts basis. Any differences in the value of investments in subsidiaries that were transferred to AS Citadele Banka and their net equity as at the date of the transfer, are treated as restructuring reserves in the consolidated financial statements of AS Citadele Banka.

Changes in the Bank's equity are as follows:

	LVL 000's				
	Attributable to equity holders of the Bank				
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Accumulated losses	Total equity
Balances as at 30 June 2010	**4,000**	**-**	**-**	**-**	**4,000**
Issue of new shares	99,000	-	-	-	99,000
Restructuring (Note 2)	-	(2,031)	(1,972)	-	(4,003)
Net loss for the period	-	-	-	(19,427)	(19,427)
Other comprehensive income for the period	-	322	4,148	-	4,470
Balances as at 31 December 2010	**103,000**	**(1,709)**	**2,176**	**(19,427)**	**84,040**
Net profit for the period	-	-	-	182	182
Other comprehensive income for the period	-	367	(326)	-	41
Balances as at 30 June 2011	**103,000**	**(1,342)**	**1,850**	**(19,245)**	**84,263**

The notes on pages 12 to 23 are an integral part of these interim condensed financial statements.

	LVL 000's	
	01/01/2011-30/06/2011 Group	01/01/2011-30/06/2011 Bank
Cash flows from operating activities		
Profit before tax	261	579
Amortisation of intangible assets and depreciation of fixed assets and investment property	2,832	1,058
Change in impairment allowances and other provisions	4,330	4,799
Other non-cash items	(4,804)	(5,558)
Cash generated before changes in assets and liabilities	**2,619**	**878**
Change in derivative financial instruments	4,542	4,645
(Increase) in other assets	(13,815)	(14,878)
Increase in other liabilities	13,752	16,486
Increase in trading investments	(127)	(1)
Decrease in balances due from credit institutions	12,075	3,238
Decrease in loans and receivables to customers	54,482	46,176
Increase in balances due to credit institutions and central banks	16,108	19,516
Decrease in deposits from customers	(113,124)	(109,007)
Cash generated from operating activities before corporate income tax	**(23,488)**	**(32,947)**
Corporate income tax	(153)	-
Net cash flow from operating activities	**(23,641)**	**(32,947)**
Cash flows from investing activities		
(Purchase) of intangible and fixed assets	(317)	(279)
Proceeds from disposal of intangible and fixed assets	97	89
(Purchase) of held-to-maturity securities, net	(371)	-
(Purchase) of available-for-sale securities	(145,843)	(116,937)
Cash inflows from available-for-sale securities	178,342	157,440
Net cash flow from investing activities	**31,908**	**40,313**
Cash flows from financing activities		
Repurchase/redemption of debt securities	(68,684)	(68,684)
Net cash flow from financing activities	**(68,684)**	**(68,684)**
Net cash flow for the period	**(60,417)**	**(61,318)**
Cash and cash equivalents at the beginning of the period	**334,017**	**309,850**
Cash and cash equivalents at the end of the period	**273,600**	**248,532**

The notes on pages 12 to 23 are an integral part of these interim condensed financial statements.

Unless stated otherwise, referral to Group’s policies and procedures should be also considered as referral to the respective Bank’s policies and procedures. Figures in parenthesis represent amounts as at 31 December 2010, unless stated otherwise.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These interim condensed financial statements have been authorised for issuance by the Management on 24 August 2011. In accordance with the Commercial Law of the Republic of Latvia, the shareholders’ meeting has the right to approve the financial statements.

NOTE 1. GENERAL INFORMATION

AS Citadele Banka (hereinafter – the Bank) was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank’s head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 30 June 2011, the Bank was operating a total of 43 branches and client service centres in Riga and throughout Latvia. The Bank has 5 foreign branches and client service centres – in Tallinn (Estonia), Narva (Estonia), Roosikrantsi (Estonia), Munich (Germany) and Stockholm (Sweden). The Bank owns directly and indirectly 19 subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group.

The Group’s main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Group offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 30 June 2011, the Group had 1,654 (1,762) full time employees and the Bank had 1,260 (1,329) full time employees.

NOTE 2. RESTRUCTURING

On 30 June 2010 AS Citadele Banka was registered in the commercial registry of the Republic of Latvia and on the same date it received banking licence from the Financial and Capital Market Commission (FCMC). AS Citadele Banka was established as a result of the implementation of AS Parex Banka’s restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS Citadele Banka was to take over from AS Parex Banka certain assets and liabilities and other items, hereinafter referred to “an undertaking”.

The transfer of undertaking from AS Parex Banka to AS Citadele Banka took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also – CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS Parex Banka, and the transferee, AS Citadele Banka, whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

The steps, which according to law need to be taken in order to execute transfer of undertaking of a credit institution differ from those needed to be taken when doing general reorganisation. The reason for that is that the transfer of credit institution’s undertaking is not a type of general reorganisation of a credit institution and different provisions of legal enactments have to be applied and complied with when doing one or the other. One of the most distinct differences and features is the fact that a credit institution is entitled not to seek consent of any creditor or other party in order to transfer its undertaking. The only permission/approval, which needs to be received, is from Financial and Capital Markets Commission as stipulated by Article 59.2 of CIL.

Restructuring implications

The Bank’s establishment and future operations are part of the restructuring plan of AS Parex Banka that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implements for AS Parex Banka and AS Citadele Banka is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. The commitments have been taken into account, when preparing the long-term business plan of the Bank. During the reporting period and in 2010, the Bank has complied with the commitments.

Impact of financial crisis on the Group and Bank

The collapse of Lehman Brothers in mid-September 2008 and the unprecedented events in subsequent weeks intensified the turmoil in global financial markets leading to increased public uncertainty. Even though in reporting period Latvian economy experienced en economic upturn, due to sovereign debt crisis of some European Union countries, the uncertainty about the economic development in the future remains.

Borrowers of the Group and liquidity of certain types of assets may be affected by the financial crisis. This has been properly reflected by the management of the Bank in its estimates of expected future cash flows in asset impairment assessments.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These interim condensed financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. These interim condensed financial statements should be read in conjunction with the 2010 full annual financial statements.

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the 6 month period ended 31 December 2010, which have been prepared in accordance with IFRSs.

Adoption of New or Revised Standards and Interpretations

The accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010. Certain new standards, interpretations and amendments to the existing standards became effective for the Group from 1 January 2011. These have not significantly affected the interim condensed financial statements of the Group:

- Improvements to International Financial Reporting Standards (issued in May 2010; most of the amendments are effective for annual periods beginning on or after 1 January 2011).

  The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree’s share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity’s financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2011 or later periods and which the Group has early adopted:

- Amendment to IAS 24, Related Party Disclosures, issued in November 2009 (effective for annual periods beginning on or after 1 January 2011). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. As a result the Bank and Group does not disclose transactions with government – related entities that are part of the Group's normal business.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2011 or later periods and which are not relevant to the Group or are not yet endorsed by the EU:

- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7(effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU)
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1. (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).
- Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).
- Employee benefits – Amendment to IAS 19 (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU).
- Financial statement presentation regarding other comprehensive income – Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).
- IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IFRS 10, Consolidated financial statements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IFRS 11, Joint arrangements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IFRS 12, Disclosures of interests in other entities (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IFRS 13, Fair value measurement (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- Separate financial statements – IAS 27 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- Associates and joint ventures – IAS 28 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

The Group is in the process of evaluating the potential effect if any of these new standards and interpretations.

Use of estimates in the preparation of financial statements

Estimates and judgements that have the most significant effect on the amounts recognised in the condensed interim financial information are mainly the same as described in the annual accounts 2010, except for changes in estimates as discussed below.

Deferred tax asset
The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset.

Impairment of other assets
In determining the impairment of assets held for sale and other receivables as a result of terminated lease agreements the Group monitors market values of real estate and lease objects on regular basis and incorporates them in their estimates.

Income taxes
Interim period income tax is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

NOTE 4. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	LVL 000's	
	01/01/2011-30/06/2011 Group	01/01/2011-30/06/2011 Bank
Total allowance for impairment at the beginning of the period, including:	**60,633**	**60,523**
- loans - specifically assessed impairment	46,905	53,203
- loans - collectively assessed impairment	13,728	7,320
Charge, including:	**7,996**	**7,390**
- loans - specifically assessed impairment	5,415	5,285
- loans - collectively assessed impairment	2,581	2,105
Release, including:	**(3,838)**	**(2,691)**
- loans - specifically assessed impairment	(2,390)	(1,838)
- loans - collectively assessed impairment	(1,448)	(853)
Provision charged to the statement of income, net, including:	**4,158**	**4,699**
- loans - specifically assessed impairment	3,025	3,447
- loans - collectively assessed impairment	1,133	1,252
Change of allowance due to write-offs, net	**(10)**	**-**
Effect of changes in currency exchange rates, including:	**(334)**	**(382)**
- loans - specifically assessed impairment	(358)	(381)
- loans - collectively assessed impairment	24	(1)
Total allowance for impairment at the end of the period, including:	**64,447**	**64,840**
- loans - specifically assessed impairment	49,562	56,269
- loans - collectively assessed impairment	14,885	8,571

An analysis of the change in impairment of other assets is presented as follows:

	LVL 000's	
	01/01/2011-30/06/2011 Group	01/01/2011-30/06/2011 Bank
Total allowance for impairment at the beginning of the period, including:	**24,186**	**20,371**
- available-for-sale securities	3,370	3,370
- due from credit institutions	535	535
- other non-financial assets	20,281	16,466
Charge, including:	**313**	**100**
- available-for-sale securities	18	18
- other non-financial assets	295	82
Release, including:	**(141)**	**-**
- other non-financial assets	(141)	-
Provision charged to the statement of income, net, including:	**172**	**100**
- available-for-sale securities	18	18
- other financial and non-financial assets	154	82
Change of allowance due to write-offs, net:	**(545)**	**-**
- other non-financial assets	(545)	-
Effect of changes in currency exchange rates, including:	**(49)**	**(46)**
- due from credit institutions	(46)	(46)
- other non-financial assets	(3)	-
Total allowance for impairment at the end of the period, including:	**23,764**	**20,425**
- available-for-sale securities	3,388	3,388
- due from credit institutions	489	489
- other non-financial assets	19,887	16,548

NOTE 5. LOANS AND RECEIVABLES TO CUSTOMERS

	LVL 000's			
	30/06/2011 Group	31/12/2010 Group	30/06/2011 Bank	31/12/2010 Bank
Not delayed - not impaired	639,687	687,025	498,462	536,478
Not delayed - impaired	28,884	19,417	111,124	107,683
Total not delayed loans	**668,571**	**706,442**	**609,586**	**644,161**
Past due loans - not impaired				
Delayed days:				
=< 29	36,375	44,352	24,337	27,555
30-59	12,683	18,036	9,887	14,235
60-89	3,510	5,017	2,900	4,392
90 and more	21,380	26,378	14,108	19,691
Total past due loans - not impaired	**73,948**	**93,783**	**51,232**	**65,873**
Total past due loans - impaired	**58,174**	**54,737**	**44,838**	**41,587**
Total gross loans and receivables to customers	**800,693**	**854,962**	**705,656**	**751,621**
Impairment allowance	(64,447)	(60,633)	(64,840)	(60,523)
Total net loans and receivables to customers	**736,246**	**794,329**	**640,816**	**691,098**

NOTE 6. FIXED INCOME SECURITIES

The Group's fixed income securities are analysed as follows:

	LVL 000's							
	30/06/2011				31/12/2010			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	117,406	79,190	98	196,694	117,688	119,622	63	237,373
Municipality bonds	2,104	733	-	2,837	1,726	721	-	2,447
Credit institution bonds	1,794	42,480	67	44,341	854	33,937	73	34,864
Corporate bonds	531	18,766	5	19,302	1,345	19,055	4	20,404
Other financial institution bonds	5,978	17,904	-	23,882	5,959	14,189	-	20,148
Total net fixed income securities	**127,813**	**159,073**	**170**	**287,056**	**127,572**	**187,524**	**140**	**315,236**

The Bank's fixed income securities are analysed as follows:

	LVL 000's							
	30/06/2011				31/12/2010			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	117,179	56,106	-	173,285	117,280	98,539	-	215,819
Municipality bonds	-	733	-	733	-	721	-	721
Credit institution bonds	-	28,948	-	28,948	-	22,160	-	22,160
Corporate bonds	-	17,993	5	17,998	-	18,705	4	18,709
Other financial institution bonds	-	3,461	-	3,461	-	3,373	-	3,373
Total net fixed income securities	**117,179**	**107,241**	**5**	**224,425**	**117,280**	**143,498**	**4**	**260,782**

NOTE 7. INVESTMENTS IN SUBSIDIARIES

No changes in the Bank’s investments in subsidiaries took place during the reporting period.

NOTE 8. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

The following table presents the Group’s and Bank’s balances due to credit institutions and central banks according to their maturity profile:

	LVL 000’s			
	30/06/2011 Group	31/12/2010 Group	30/06/2011 Bank	31/12/2010 Bank
Balances on demand	9,363	58,668	10,707	58,216
Overnight deposits	750	-	12,838	8,434
Total balances repayable on demand	**10,113**	**58,668**	**23,545**	**66,650**
Loans from credit institutions:				
due within 1 month	13,882	4,862	10,295	4,711
due within 1-3 months	14,117	7,029	23,528	10,199
due within 3-6 months	-	-	516	615
due within 6-12 months	-	-	703	-
Total loans from credit institutions	**27,999**	**11,891**	**35,042**	**15,525**
Total due to credit institutions	**38,112**	**70,559**	**58,587**	**82,175**

NOTE 9. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	LVL 000’s			
	30/06/2011 Group	31/12/2010 Group	30/06/2011 Bank	31/12/2010 Bank
Privately held companies	493,353	526,916	397,537	436,166
Private individuals	396,104	436,484	326,400	353,354
Government	131,818	173,684	131,366	171,707
State owned enterprises	75,288	88,835	75,086	88,648
Financial institutions	43,367	37,314	37,806	37,311
Municipalities	36,113	26,240	36,088	26,229
Public and religious institutions	5,168	4,862	3,984	3,859
Total deposits from customers	**1,181,211**	**1,294,335**	**1,008,267**	**1,117,274**

Financing support from the Ministry of Finance

According to AS “Parex banka” restructuring plan a certain amount of State support was transferred to the Bank. The Ministry of Finance of Latvia has made a number of deposits on a secured basis, receiving part of Bank’s loan portfolio as collateral. As at 30 June 2011, the following financing support received from the Ministry of Finance was outstanding (2010: LVL 131,000):

Agreement currency	Interest rate (%)	Agreement date	Maturity date	Amortised cost LVL 000’s 30/06/2011
EUR	5.381	01/08/2010	30/09/2011	33,196
EUR	5.381	01/08/2010	30/12/2011	33,196
EUR	5.381	01/08/2010	30/03/2012	33,194
Total Treasury deposits				**99,586**

NOTE 10. SUBORDINATED DEBT

The following table represents the details of Bank’s and Group’s subordinated debt:

Counterparty	Residence country	Currency	Issue size, 000’s	Interest rate	Original agreement date	Original maturity date	Amortised cost (LVL 000’s) 30/06/2011	31/12/2010
Privatisation Agency	Latvia	EUR	53,128	8.800%	22/05/2009	21/05/2016	38,653	38,008
Privatisation Agency	Latvia	EUR	11,205	8.341%	02/08/2010	08/08/2016	8,136	8,128
EBRD	UK	EUR	7,195	8.341%	11/09/2009	08/08/2016	5,111	5,099
Total							**51,900**	**51,235**

NOTE 11. ISSUED SHARE CAPITAL

As at 30 June 2011, the Bank’s registered and paid-in share capital was LVL 103,000 thousand. In accordance with the Bank’s statutes, the share capital consists of 103,000 thousand ordinary shares with voting rights. All shares have a par value of LVL 1 each and, as at 30 June 2011, they all were issued and fully paid. As at 30 June 2011, the Bank did not possess any of its own shares. No dividends were proposed and paid during the 6 month period ended 30 June 2011.

As at 30 June 2011 and 31 December 2010, the Bank had 2 shareholders as follows:

	As at 30/06/2011 and 31/12/2010		
	Paid-in share capital (LVL)	% of total paid-in capital	% of total voting rights
Privatisation Agency	77,249,999	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	25,750,001	25% plus 1 share	25% plus 1 share
Total	**103,000,000**	**100.00**	**100.00**

NOTE 12. CAPITAL ADEQUACY

As at 30 June 2011, the Bank’s and the Group’s capital adequacy ratio was 13.0% (2010: 12.5%) and 10.7% (2010: 10.0%), respectively. The Financial and Capital Markets Commission’s (FCMC), the banking regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets. Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group’s financial statements and the Bank’s financial statements as a stand-alone entity. The Bank and the Group complied with the capital adequacy requirements at the end of the reporting period.

NOTE 13. LITIGATIONS AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in a number of legal proceedings related to its customers in Latvia and abroad.

The management of the Bank believes that any legal proceedings pending as at 30 June 2011 will not result in material losses for the Group.

NOTE 14. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group's companies/ Bank and their related companies are stated in one line, accordingly.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were related parties as at respective dates.

	Amount in LVL 000's 30/06/2011*	Interest income/ expense 01/01/2011-30/06/2011	Amount in LVL 000's 31/12/2010*
Credit exposure to related parties			
Securities:	168,063	4,256	171,705
Latvian treasury bills and government bonds	*168,063*	*4,256*	*171,705*
Loans and receivables:	3,439	43	3,637
Management	*640*	*10*	*646*
State institutions	*1*	-	
Municipality institutions	*2,798*	*33*	*2,991*
Financial commitments and outstanding guarantees:	4,190	-	4,226
Management	*49*	-	*46*
State institutions	*3,141*	-	*3,170*
Municipality institutions	*1,000*	-	*1,010*
Total credit exposure to related parties	**175,692**		**179,568**
Due to related parties:	210,875	5,285	247,953
Deposits from Ministry of Finance	*99,586*	*2,645*	*131,000*
Subordinated loans from shareholder	*51,900*	*2,196*	*51,235*
Management	*415*	*6*	*530*
State institutions	*23,172*	*406*	*39,230*
Municipality institutions	*35,802*	*32*	*25,958*
Total amounts due to related parties	**210,875**		**247,953**

** including accrued interest*

Group's exposures with related parties as at 30 June 2011 or for the 6 month period then ended were not impaired.

Management remuneration

	LVL 000's 01/01/2011-30/06/2011 Group	LVL 000's 01/01/2011-30/06/2011 Bank
Remuneration (incl. any supplements etc.)	743	311
Social security contributions	167	75
Total management remuneration	**910**	**386**

The following table presents the outstanding balances and terms of the Bank’s transactions with counterparties, which were related parties as at respective dates.

	Gross amount in LVL 000’s 30/06/2011*	Interest income/ expense 01/01/2011-30/06/2011	Gross amount in LVL 000’s 31/12/2010*
Credit exposure to related parties			
Securities:	168,063	4,256	171,705
Latvian treasury bills and government bonds	*168,063*	*4,256*	*171,705*
Loans and receivables:	114,915	1,846	133,856
Management	*159*	*3*	*160*
State institutions	*1*	-	-
Municipality institutions	*2,798*	*33*	*2,991*
Subsidiaries	*111,957*	*1,810*	*130,705*
Derivatives – assets:	6	-	71
Subsidiaries	*6*	-	*71*
Financial commitments and outstanding guarantees:	19,562	-	37,221
Management	*49*	-	*46*
State institutions	*3,141*	-	*3,170*
Municipality institutions	*1,000*	-	*1,010*
Subsidiaries	*15,372*	-	*32,995*
Total credit exposure to related parties	**302,546**		**342,853**
Due to related parties:	238,827	5,405	269,353
Deposits from Ministry of Finance	*99,586*	*2,645*	*131,000*
Subordinated loans from shareholders	*51,900*	*2,196*	*51,235*
Management	*203*	*5*	*216*
State institutions	*23,172*	*406*	*39,230*
Municipality institutions	*35,802*	*32*	*25,958*
Subsidiaries	*28,164*	*121*	*21,714*
Derivatives – liabilities:	126	-	71
Subsidiaries	*126*	-	*71*
Total amounts due to related parties	**238,953**		**269,424**

** including accrued interest*

In the 6 month period ended 30 June 2011 the Bank has recognized a net impairment allowance of LVL 42 thousand on loans and receivables from subsidiaries. As at 30 June 2011 the total impairment allowance recognized on loans and receivables from subsidiaries was LVL 16,452 thousand (2010: LVL 16,410 thousand). No other Bank’s exposures with related parties as at 30 June 2011 or for the 6 month period then ended were impaired.

NOTE 15. BALANCE SHEET AMOUNTS BY CONTRACTUAL MATURITY

Group's assets, liabilities and memorandum items by contractual maturity structure as at 30 June 2011

	Group as at 30/06/2011, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	124,693	-	-	-	-	7,786	132,479
Balances due from credit institutions	146,627	5,458	441	330	260	248	153,364
Securities held for trading	34	-	-	-	135	35	204
Financial assets designated at fair value through profit or loss	-	-	-	-	1,509	3,276	4,785
Available-for-sale securities	1,039	3,900	51,250	11,129	84,511	15,978	167,807
Loans and receivables to customers	22,102	13,758	35,584	73,887	354,423	236,492	736,246
Held-to-maturity securities	1,827	360	2,638	974	112,606	9,408	127,813
Derivatives financial instruments	1,071	32	189	80	-	-	1,372
Other assets	19,807	103	249	2,333	130	69,293	91,915
Total assets	**317,200**	**23,611**	**90,351**	**88,733**	**553,574**	**342,516**	**1,415,985**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	2,854	-	2,854
Financial liabilities measured at amortised cost	714,412	174,416	113,257	211,170	46,248	56,010	1,315,513
Derivative financial instruments	3,732	38	67	51	-	-	3,888
Other liabilities	8,830	332	129	71	630	599	10,591
Total liabilities	**726,974**	**174,786**	**113,453**	**211,292**	**49,732**	**56,609**	**1,332,846**
Equity	-	-	-	-	-	83,139	83,139
Total liabilities and equity	**726,974**	**174,786**	**113,453**	**211,292**	**49,732**	**139,748**	**1,415,985**
Net balance sheet position – long/ (short)	(409,774)	(151,175)	(23,102)	(122,559)	503,842	202,768	-
Memorandum items							
Contingent liabilities	17,061	-	-	-	-	-	17,061
Financial commitments	109,621	-	-	-	-	-	109,621

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2010

	Group as at 31/12/2010, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	179,233	-	-	-	-	7,987	187,220
Balances due from credit institutions	199,078	6,800	246	201	13,034	265	219,624
Securities held for trading	34	-	-	-	136	4	174
Financial assets designated at fair value through profit or loss	-	-	-	-	1,483	1,835	3,318
Available-for-sale securities	5,228	10,830	43,891	59,901	54,267	22,874	196,991
Loans and receivables to customers	30,428	14,501	31,329	32,444	408,853	276,774	794,329
Held-to-maturity securities	-	1,374	180	4,288	111,947	9,783	127,572
Derivatives financial instruments	2,618	14	36	2	-	-	2,670
Other assets	5,099	391	2,283	207	141	72,490	80,611
Total assets	**421,718**	**33,910**	**77,965**	**97,043**	**589,861**	**392,012**	**1,612,509**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	1,484	-	1,484
Financial liabilities measured at amortised cost	749,926	170,607	212,482	152,730	174,219	54,983	1,514,947
Derivative financial instruments	627	13	-	4	-	-	644
Other liabilities	10,859	625	134	19	667	1,103	13,407
Total liabilities	**761,412**	**171,245**	**212,616**	**152,753**	**176,370**	**56,086**	**1,530,482**
Equity	-	-	-	-	-	82,027	82,027
Total liabilities and equity	**761,412**	**171,245**	**212,616**	**152,753**	**176,370**	**138,113**	**1,612,509**
Net balance sheet position – long/ (short)	(339,694)	(137,335)	(134,651)	(55,710)	413,491	253,899	-
Memorandum items							
Contingent liabilities	10,128	-	-	-	-	-	10,128
Financial commitments	91,633	-	-	-	-	-	91,633

Bank’s assets, liabilities and memorandum items by contractual maturity structure as at 30 June 2011

Bank as at 30/06/2011, LVL 000’s	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	124,543	-	-	-	-	-	124,543
Balances due from credit institutions	146,944	9,855	-	-	-	-	156,799
Securities held for trading	-	-	-	-	5	-	5
Available-for-sale securities	-	30	45,685	2,051	56,857	11,287	115,910
Loans and receivables to customers	16,422	12,669	30,377	103,473	295,629	182,246	640,816
Held-to-maturity securities	-	-	-	-	107,771	9,408	117,179
Derivatives financial instruments	1,078	32	187	80	-	-	1,377
Other assets	18,680	3	22	10	17	78,058	96,790
Total assets	**307,667**	**22,589**	**76,271**	**105,614**	**460,279**	**280,999**	**1,253,419**
Liabilities							
Financial liabilities measured at amortised cost	594,430	165,471	102,223	199,553	41,428	54,209	1,157,314
Derivative financial instruments	3,857	36	64	51	-	-	4,008
Other liabilities	7,834	-	-	-	-	-	7,834
Total liabilities	**606,121**	**165,507**	**102,287**	**199,604**	**41,428**	**54,209**	**1,169,156**
Equity	-	-	-	-	-	84,263	84,263
Total liabilities and equity	**606,121**	**165,507**	**102,287**	**199,604**	**41,428**	**138,472**	**1,253,419**
Net balance sheet position – long/ (short)	(298,454)	(142,918)	(26,016)	(93,990)	418,851	142,527	-
Memorandum items							
Contingent liabilities	13,897	-	-	-	-	-	13,897
Financial commitments	114,074	-	-	-	-	-	114,074

Bank’s assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2010

Bank as at 31/12/2010, LVL 000’s	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	177,348	-	-	-	-	-	177,348
Balances due from credit institutions	186,432	12,720	-	-	12,456	-	211,608
Securities held for trading	-	-	-	-	4	-	4
Available-for-sale securities	3,653	8,900	39,142	50,883	28,879	21,470	152,927
Loans and receivables to customers	23,950	46,157	27,825	22,593	352,909	217,664	691,098
Held-to-maturity securities	-	-	-	-	108,103	9,177	117,280
Derivatives financial instruments	2,684	8	22	2	-	-	2,716
Other assets	3,826	10	36	50	14	78,985	82,921
Total assets	**397,893**	**67,795**	**67,025**	**73,528**	**502,365**	**327,296**	**1,435,902**
Liabilities							
Financial liabilities measured at amortised cost	637,792	154,215	191,820	138,317	168,432	51,665	1,342,241
Derivative financial instruments	693	6	-	3	-	-	702
Other liabilities	8,919	-	-	-	-	-	8,919
Total liabilities	**647,404**	**154,221**	**191,820**	**138,320**	**168,432**	**51,665**	**1,351,862**
Equity	-	-	-	-	-	84,040	84,040
Total liabilities and equity	**647,404**	**154,221**	**191,820**	**138,320**	**168,432**	**135,705**	**1,435,902**
Net balance sheet position – long/ (short)	(249,511)	(86,426)	(124,795)	(64,792)	333,933	191,591	-
Memorandum items							
Contingent liabilities	6,724	-	-	-	-	-	6,724
Financial commitments	113,049	-	-	-	-	-	113,049

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Citadele banka Group

We have audited the accompanying consolidated condensed interim statement of financial position of AS Citadele banka (the "Company") and its subsidiaries (the "Group") as of 30 June 2011 and the related consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes (the "consolidated condensed interim financial information").

Management's Responsibility for the Financial Information

Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation and presentation of financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this consolidated condensed interim financial information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated condensed interim financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated condensed interim financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the condensed financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the consolidated condensed interim financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated condensed interim financial information.

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 accompanying consolidated condensed interim financial information has been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
25 August 2011