AS "LATVIJAS PASTA BANKA"

Interim condensed financial statements
for the six-month period ended 30 June 2017

CONTENTS

MANAGEMENT REPORT

1. GENERAL INFORMATION

AS Latvijas Pasta Banka (hereinafter – the Bank) is a joint stock company registered in the Republic of Latvia and operates according to the laws of the Republic of Latvia and the licence issued by the Financial and Capital Markets Commission on 12 September 2008.

AS Latvijas Pasta Banka legal address: Brivibas street 54, Riga, LV-1011, Latvia.

The Bank has a head office and two customer service centres in Riga.

The Bank's core business activities are:

- issue and acceptance of payment cards via POS terminals and Internet, in cooperation with well-known organizations such as MasterCard, Visa, Tieto, First Data, Global Payment using MasterCard acquiring license for Europe and Visa acquiring license for Europe, thus providing services to On-line merchants across Europe;
- investment of attracted funds in financial instruments;
- issue of credit lines linked to payment cards to private individuals;
- issue of loans to legal entities based on the moderately conservative risk approach, especially financing of current assets and transportation flows.

2. ECONOMIC REVIEW

The year 2017 has begun successfully with the Bank continuing to grow and expand.

Compared to the first half of 2016, the net profit of the Bank has decreased from 8.1 million euros to 4.1 million euros in the first half of 2017. But, given that in the first half of 2016, Bank has received an additional unplanned profit of 4.4 million euros in the sale of VISA Europe shares, then, despite this transaction, the Bank has increased its semi-annual profit by 10% or 0.4 million euros.

In January of this year, a new Internet bank was presented to customers of AS Latvijas Pasta Banka. Modern design and convenient functionality were highly appreciated by the customers. New Internet Bank allows the Bank's customers to carry out daily operations with their accounts and transfers more quickly and precisely.

The new Internet Banking authorization was introduced in April - the identification tables were replaced with a safer digital solution - a one-time security code that the client receives as a text message on his phone.

In the first half of the year the Bank has participated in the international exhibitions in Kiev "iForum" and "INTAX FORUM". The events in Kiev provided an opportunity to strengthen cooperation with foreign partners and clients, as well as to present the Bank's services to the rapidly growing Ukrainian financial market.

In the second half of 2017 the Bank will continue its technological development, by presenting for its clients new web page, which will be dedicated to AS Latvijas pasta banka e-commerce services.

The Bank's most important financial indicators shows stable growth:

• The Bank's assets as at 30 June 2017 amounted to 205.7 million euros.

• The Bank's capital adequacy level at 30 June 2017 was 20.40%, while the liquidity ratio was 99.64%.

• The Bank's return on capital (ROE) was 29.2% on 30 June 2017, while the return on assets (ROA) reached 3.95%.

The Bank's financial asset portfolio consists of debt securities issued by central governments of Latvia and other countries and debt securities issued by credit institutions and other financial institutions. The Bank's investments in financial assets are made in accordance with the Available-for-Sale financial instruments portfolio investment strategy approved by the Bank and the Investment strategy for the portfolio of Held-to-Maturity financial instruments. Avoiding high-risk exposures, the Bank has set limits on new investments in financial instruments by specifying that investments in financial instrument portfolios are restricted to Latvian government securities and financial instruments with a credit rating of BBB - or higher and stable development forecast (according to the Moody's scale or equivalent by Fitch or Standard & Poor's). Small-scale portfolio of available-for-sale financial instruments may be supplemented by financial instruments with a credit rating of BB - or higher.

The Bank shall carry out quantitative risk assessments on the basis of Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, the Standardized and Key Approach approaches, as well as the Financial and Capital Market Commission dated 29.11.2016. The regulatory enactments No 199 "Simplified Methods" described in the "Regulations for the Establishment of the Capital and Liquidity Adequacy Assessment Process".

The Bank's risk control is mainly based on the Early Warning System developed by the Bank, which covers the Bank's approved limits and defines the risk characteristics that correspond to the moderate level specified in the Bank's strategy of operations. The total risk level is defined as the average of all risk levels.

The Bank has no trading portfolio, therefore the Bank's market risk is mainly related to foreign currency exchange risk.

We express gratitude to our shareholders and clients for the confidence shown, and to all our employees - for the contribution to the Bank's growth!

3. THE COUNCIL AND THE BOARD

The Council of the Bank as at 30 June 2017

Name	Position	Date of appointment
Biomins Kajems	Chairman of the Council	13/10/2008
Mihails Uļmans	Deputy Chairman of the Council	20/09/2013
Aleksandr Plotkin	Council Member	14/10/2015

The Board of the Bank as at 30 June 2017

Name	Position	Date of appointment
Boriss Ulmans	Chairman of the Board	05/09/2008
Arnis Kalveršs	Board Member	05/09/2008
Jurijs Svirčenkovs	Board Member	29/04/2014

There have been no changes in the Bank’s Council and Board in 2017.

Respectfully,

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 17 August 2017

STATEMENT OF MANAGEMENT’S RESPONSIBILITY

The management of AS LATVIJAS PASTA BANKA (hereinafter – the Bank) are responsible for the preparation of the Bank’s interim condensed financial statements. These financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis in preparing the Bank’s financial statements. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Bank’s financial statements set out on pages 12 to 43 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 30 June 2017 and the results of its operations and cash flows for the six-month period ended 30 June 2017.

The management of the Bank are responsible for the maintenance of proper accounting records, the safeguarding the Bank’s assets, and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank`s management:

Biomins Kajems	Boriss Ulmans
Chairman of the Council	Chairman of the Board

Riga, 17 August 2017

INDEPENDENT AUDITOR'S REPORT
(Translation of the Latvian original)*

To the Shareholders of AS Latvijas pasta banka

Report on the audit of the interim condensed financial statements

Our opinion

In our opinion, the interim condensed financial statements of AS Latvijas pasta banka (the "Bank") set out on pages 13 to 43 are prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted in the European Union.

What we have audited

The interim condensed financial statements comprise:

- the interim condensed statement of financial position as at 30 June 2017;
- the interim condensed statement of comprehensive income for the 6 month period ended 30 June 2017;
- the interim condensed statement of changes in equity for the 6 months period ended 30 June 2017;
- the interim condensed statement of cash flows for the 6 months period ended 30 June 2017; and
- the notes to the interim condensed financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Interim Condensed Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Materiality

- Overall Bank materiality is 235 thousand EUR, which represents approximately 5% of profit before tax.

Key audit matters

- Allowance for impairment of loans.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the interim condensed financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the interim condensed financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates. We performed full scope audit of the Bank.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the interim condensed financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the interim condensed financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the interim condensed financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the interim condensed financial statements as a whole.

Overall Company materiality	Overall materiality is EUR 235 thousand.
How we determined it	Overall materiality is approximately 5% of profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 11 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the interim condensed financial statements of the current period. These matters were addressed in the context of our audit of the interim condensed financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans *Refer to page 26 (Note 10 'Provision for loan impairment') and pages 27-29 (Note 13 'Loans').* We focused on this area because management makes subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment. Impairment reversal on loans for the 6 months ended 30 June 2017 amounted to EUR 293 thousand. The amount of impairment provision for loan portfolio is based on the individual assessment of loans. Individual impairment is calculated based on the exposure and taking into account estimated future cash flows from the customer and market value of the collateral as at the balance sheet date. The most significant judgments made by Management in respect of impairment of loans, relate to: Monitoring over the timely identification of loss events. Estimates of future cash flows from customers, including collaterals.	We assessed whether the Bank's accounting policies in relation to the impairment of loans to customers are in compliance with IFRS. We assessed the design and operating effectiveness of the controls over monitoring of the loan portfolio, including impairment calculation for individually assessed loans, by analysing the controls and testing them on a sample basis. These controls included those over the credit file periodic review, credit rating assessment, and monitoring of collateral values. We determined that we could rely on these controls for the purposes of our audit. We selected a sample of individually assessed loans and reviewed customer financial information, collateral data and other available information. We considered management assumptions and judgements regarding forecasts of future cash flows, valuations of underlying collaterals, as well as estimated timing of recovery of loans either through operating cash flows or from realisation of collateral. We also performed detailed testing over: the completeness and accuracy of data used in calculating the impairment provisions; We read the disclosures in respect of impairment and credit risk. Based on the evidence obtained, we found management's assumptions to be reasonable and the disclosures to be appropriate.

Other information

Management is responsible for the other information. The other information comprises:

- the *Management Report*, as set out on pages 3 to 5 of the accompanying report, and
- the *Statement of Responsibility of the Management*, as set out on page 6 of the accompanying report,

but does not include the interim condensed financial statements and our auditor's report thereon.

Our opinion on the condensed interim financial statements does not cover the other information included in the report and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of* Latvia section of our report.

In connection with our audit of the interim condensed financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the interim condensed financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the interim condensed financial statements

Management is responsible for the preparation of the interim condensed financial statements in all material respects, 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 of interim condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim condensed financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the interim condensed financial statements

Our objectives are to obtain reasonable assurance about whether the interim condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these interim condensed financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the interim condensed financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the interim condensed financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the interim condensed financial statements, including the disclosures, and whether the interim condensed financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the interim condensed financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No. 46 "Regulations on the Preparation of Annual Accounts and Consolidated Annual Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial period for which the interim condensed financial statements are prepared is consistent with the interim condensed financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No. 46 "Regulations on the Preparation of Annual Accounts

and Consolidated Annual Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank for the year ended 31 December 2012. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168
Member of the Board

Riga, Latvia
18 August 2017

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six-month period ended	
		30.06.2017	**30.06.2016**
Interest income	5	2 528	2 940
Interest expense	5	(432)	(674)
Net interest income	5	**2 096**	**2 266**
Provision for loan impairment	10	293	(28)
Net interest income after provision for impairment of assets		**2 389**	**2 238**
Commission and fee income	6	11 520	9 504
Commission and fee expense	6	(7 610)	(4 761)
Net commission and fee income	6	**3 910**	**4 743**
Income from dividends		4	-
Net trading income	8	1 651	6 479
Other income	7	233	140
Administrative expense	9	(2 920)	(2 424)
Depreciation		(179)	(165)
Other expense	7	(450)	(1 730)
Profit before tax		**4 638**	**9 281**
Corporate income tax		(535)	(1 230)
Net profit for the period		**4 103**	**8 051**
Profit attributable to the owners of the Bank		**4 103**	**8 051**
Other comprehensive income/ (expense)			
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve of available for sale securities		76	(3 385)
Total other comprehensive income/ (expense)		**76**	**(3 385)**
Total comprehensive income attributable to the owners of the Bank		**4 179**	**4 666**
Earnings per share (EUR)	21	**0.316**	**0.619**

The accompanying notes on pages 18 to 43 form an integral part of these financial statements. The Bank’s financial statements set out on pages 13 to 43 were approved by the Board and by the Council on 17 August 2017.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 17 August 2017

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

	Notes	30.06.2017	31.12.2016
ASSETS			
Cash and balances with the Bank of Latvia	11	18 662	24 884
Due from credit institutions	12	27 332	16 785
Held for trading financial assets		-	1
Available-for-sale financial assets	14	25 735	27 240
Loans and receivables	13	42 161	40 162
Held-to-maturity financial investments	14	75 673	79 413
Property, plant and equipment		6 800	6 888
Intangible assets		523	521
Other assets	15	8 548	8 596
Overpaid corporate income tax		86	-
Prepaid expense and accrued income		223	254
Total assets		**205 743**	**204 744**
LIABILITIES			
Held for trading financial assets		-	2
Liabilities at amortised cost	17	163 751	168 389
Deposits from customers		*163 751*	*168 389*
Current tax liabilities		-	901
Deferred tax liabilities		375	354
Other liabilities	18	11 197	4 205
Deferred income and accrued expense	19	756	908
Total liabilities		**176 079**	**174 759**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Paid-in share capital	20	13 000	13 000
Revaluation reserve of available for sale financial assets		895	819
Retained earnings		15 769	16 166
Total equity attributable to equity holders of the Bank		**29 664**	**29 985**
Total equity		**29 664**	**29 985**
Total liabilities and equity		**205 743**	**204 744**

The accompanying notes on pages 18 to 43 form an integral part of these financial statements. The Bank’s financial statements set out on pages 13 to 43 were approved by the Board and by the Council on 17 August 2017.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 17 August 2017

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid in share capital	Revaluation reserve of available-for-sale financial assets	Retained earnings	Total
Balances as at 31 December 2015	**12 000**	**4 467**	**4 910**	**21 377**
Increase in share capital	1 000	-	-	1 000
Other comprehensive income	-	(3 385)	-	(3 385)
Net profit for the period	-	-	8 051	8 051
Balances as at 30 June 2016	**13 000**	**1 082**	**12 961**	**27 043**
Other comprehensive income	-	(263)	-	(263)
Net profit for the period	-	-	3 205	3 205
Balances as at 31 December 2016	**13 000**	**819**	**16 166**	**29 985**
Other comprehensive income	-	76	-	76
Net profit for the period	-	-	4 103	4 103
Paid dividends	-	-	(4 500)	(4 500)
Balances as at 30 June 2017	**13 000**	**895**	**15 769**	**29 664**

The accompanying notes on pages 18 to 43 form an integral part of these financial statements. The Bank’s financial statements set out on pages 13 to 43 were approved by the Board and by the Council on 17 August 2017.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 17 August 2017

INTERIM CONDENSED STATEMENT OF CASH FLOWS

	Six-month period ended	
	30.06.2017	**30.06.2016.**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	4 638	9 281
Amortisation / depreciation	179	165
(Decrease)/ increase in impairment allowance for financial assets	(293)	28
Interest income	(2 528)	(2 940)
Interest expense	432	674
Unrealised foreign exchange loss/ (gain)	166	(39)
Decrease in cash and cash equivalents from operating activities before changes in assets and liabilities	**2 594**	**7 169**
Decrease in balances due from credit institutions	-	51
(Increase)/ decrease in loans and receivables	(1 695)	388
Decrease / (increase) in other assets	65	(3 501)
Decrease in deposits from customers	(4 717)	(13 992)
Increase in other liabilities	6 838	6 025
Change in cash and cash equivalents from operating activities before income tax and net interest income	**3 085**	**(3 860)**
Interest received	2 858	3 178
Interest paid	(353)	(582)
Income tax paid	(1 501)	(386)
Change in cash and cash equivalents from operating activities	**4 089**	**(1 650)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(93)	(56)
Increase of available-for-sale financial assets	1 444	17 900
Decrease/ (increase) of held-to-maturity financial instruments	3 551	(10 029)
Change in cash and cash equivalents from investing activities	**4 902**	**7 815**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase of share capital	-	1 000
Dividends paid	(4 500)	-
Change in cash and cash equivalents from financing activities	**(4 500)**	**1 000**
Net cash flows for the period	**4 491**	**7 165**
Cash and cash equivalents at the beginning of the period	41 669	62 003
Foreign exchange (loss)/ gain	(166)	39
Cash and cash equivalents at the end of the period	**45 994**	**69 207**

INTERIM CONDENSED STATEMENT OF CASH FLOWS (continued)

Cash and cash equivalents are disclosed in note 22.

The accompanying notes on pages 18 to 43 form an integral part of these financial statements. The Bank’s financial statements set out on pages 13 to 43 were approved by the Board and by the Council on 17 August 2017.

Biomins Kajems
Chairman of the Council

Boriss Ulmans
Chairman of the Board

Riga, 17 August 2017

NOTE 1 BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed financial statements of AS Latvijas pasta banka are prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. These interim condensed financial statements do not include all the information and disclosures required in the complete financial statements and should be read in conjunction with the 2016 full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

(b) Going concern

The interim condensed financial statements are prepared on the going concern basis. The Bank's management has analysed the Bank's financial position, availability of financial resources as well as the impact of the financial crisis on the future operations of the Bank. The Bank's operating strategy is aimed at further development of the bank servicing certain customers and developing customised products and service technologies.

The Bank's capital adequacy is monitored by the following:

- Analysing the report prepared in accordance with the Bank's Procedure for Calculating the Minimum Capital Requirements at least on a monthly basis;
- Assessing the capital required to cover all significant risks the Bank is exposed to and the extent of the available capital for a three-year planning period at least once every year and by benchmarking the actual financial performance of the Bank against the target indicators on a monthly basis;
- Analysing the asset quality and estimating the required allowances at least on a quarterly basis.

Pursuant to the Bank's Crisis Management Plan, in the event of a prolonged crisis of capital the Bank will use its capital reserves, attract subordinated deposits, or seek a shareholders' decision to increase the Bank's capital.

Having analysed the key risks related to the present and potential economic situation, the development of the banking industry as well as the Bank's existing and potential human and financial resources, the Bank has selected to pursue the following strategy:

- As a priority, to offer its services to legal entities, forming the customer portfolio based on customised services;
- Along with legal entities, to offer equal customised services also to high-income and ultra-high income private individuals;
- To be present in Latvia, Russia, other CIS and EEA states;

To define as the priority business activities the following:

- issue and acceptance of payment cards via POS terminals and the Internet, in cooperation with renowned organisations, such as MasterCard, Visa, Tieto, First Data, Global Payment using MasterCard acquiring license for Europe and Visa acquiring license for Europe, thus providing services to Internet merchants throughout Europe,

- investment of attracted funds in financial instruments,
- issue of credit lines linked to payment cards to private individuals,
- issue of loans to legal entities based on the moderately conservative risk approach, especially financing of current assets and transportation flows;

The Bank has set a target capital adequacy ratio for 2017 of at least 16 per cent.

Bank has no seasonality charasteristics.

(c) Functional and presentation currency

These financial statements are reported in thousands of euro (EUR’000), unless otherwise stated. The functional currency of the Bank is euro (EUR).

(d) Basis of presentation

These financial statements are prepared on a historical cost basis, except for assets and liabilities, which are reported at fair value:

- derivative financial instruments;
- available-for-sale financial assets.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Income and expense are not offset in the financial statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed below, in preparing these interim condensed financial statements, the Bank consistently applied accounting policies in line with those used for preparing the 2016 financial statements.

Income tax expense is recognised in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the weighted average effective annual income tax rate changes. Interim period income tax expense is accrued using the tax rate that would be applicable to expect total annual earnings, that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

There are no new or amended IFRS and interpretations that became effective in first 6 months 2017.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 July 2017 or later periods or are not yet endorsed by the EU:

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 10 “Consolidated financial statements”, IAS 28 “Investments in associates and joint ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU);

IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);

Amendments to IAS 12 “Income taxes” - recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IAS 7 “Statement of Cash Flows” – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 2 “Share-based Payment” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 “Financial statements” with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Annual improvements to IFRS’s 2016. The amendments include changes that affect 3 standards:

- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU),
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and
- IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IAS 40 “Investment Property” – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

NOTE 3 RISK MANAGEMENT

All the aspects of the Bank’s risk management objectives and policies are consistent with those disclosed in the Bank’s 2016 financial statements.

On January 30, 2017, the FCMC launched a planned audit of the compliance of the Bank's activities with the requirements of the Law On the Prevention of Money Laundering and Terrorism Financing and the requirements of the FCMC Regulations No. 153 Customer Detection Regulations. The audit process still continues as of date of signing these interim condensed financial statements and the final audit report has not yet been received. Despite the fact that this creates uncertainty to the potential future impact of this process, the Bank's management confirms that the audit results will not affect the Bank's ability to meet its obligations to customers and partners. In general, the Bank complies with binding laws and regulations, including with regard to the prevention of money laundering and terrorism financing. The Bank's internal control system is constantly being improved and developed, with the necessary personnel and technological resources being allocated, in addition, the Bank takes the necessary measures aimed at eliminating suspicious and unusual transactions of all customers.

NOTE 4 JUDGMENTS AND ESTIMATES

The preparation of interim condensed financial statements requires the management to make judgments, estimates and assumptions that affect the adoption of accounting policies, the reported amounts of assets, liabilities, income and expense. Accordingly, actual results could differ from those estimates.
The significant areas of judgment regarding the adoption of accounting policies and the key sources of estimate uncertainty used in preparing these interim condensed financial statements are consistent with those used in the 2016 financial statements.

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NOTE 5 NET INTEREST INCOME

	Six-month period ended	
	30.06.2017	**30.06.2016**
Interest income		
Due from credit institutions	128	240
Loans and receivables	1 150	1 378
Incl. impaired loans	*3*	*2*
Securities	1 250	1 322
Incl. held to maturity	*896*	*828*
Incl. available for sale	*354*	*494*
Total interest income:	**2 528**	**2 940**
Interest expense		
Due to credit institutions	-	(1)
Non-bank deposits	(306)	(451)
Payments to the Deposit Guarantee Fund	(126)	(222)
Total interest expense:	**(432)**	**(674)**
Net interest income	**2 096**	**2 266**

NOTE 6 NET COMMISSION AND FEE INCOME

	Six-month period ended	
	30.06.2017	**30.06.2016**
Commission and fee income		
Payment card transactions	9 941	7 477
Service fee for account maintenance and cash transactions	1 036	1 362
Assets management and brokarage services	450	532
Other bank transactions	93	133
Total commission and fee income:	**11 520**	**9 504**
Commission and fee expense		
Payment card transactions	(5 553)	(4 585)
Agents commission	(1 913)	-
Correspondent banking services	(89)	(126)
Brokerage services	(55)	(44)
Other bank transactions	-	(6)
Total commission and fee expense:	**(7 610)**	**(4 761)**
Net commission and fee income	**3 910**	**4 743**

NOTE 7 OTHER INCOME AND EXPENSE

	Six-month period ended	
	30.06.2017	**30.06.2016**
Other income		
Penalties collected	180	117
Incl. past due loan payments	*173*	*111*
Other income	53	23
Total other income	**233**	**140**
Other expense		
Membership fees to various organisations	(52)	(33)
Payment card project implementation and servicing	(362)	(419)
Factoring service related expense	(4)	(10)
Client attraction related expense	-	(1 238)
Other expenses	(32)	(30)
Total other expenses	**(450)**	**(1 730)**

Costs associated with customer attraction in 2017 (1 913 thous. EUR) are presented under Commission and Fee expense under position Agents Commission (Note 6).

NOTE 8 NET TRADING INCOME

	Six-month period ended	
	30.06.2017	**30.06.2016**
Net profit from transactions with derivative financial instruments	126	143
Incl. net trading profit	*126*	*142*
Net gain from transactions with other currency	1 139	853
Incl. net trading gain	*1 305*	*814*
Incl. net revaluation result	*(166)*	*39*
Net gain from available-for-sale financial instruments	386	5 483
Incl. sales of debt securities	*386*	*309*
Incl.sales of VISA Europe limited shares	-	*5 174*
Net trading gain	**1 651**	**6 479**

In accordance with the VISA Europe Limited share purchase announced in 2016 and carried out in 2016 by VISA Inc., the Bank received a cash payment of 5 174 thousand EUR in June 2016, which was recognized as income from the sale of available-for-sale financial instruments, in addition Bank received 1 878 preference shares and in the future the deferred payment is expected. Deferred payment has been included in the profit of the year 2016 (Bank has not recognized this payment in its financial statements as at 30 June 2016). However, the assessment of the received preference shares is reflected in Note 25.

NOTE 9 ADMINISTRATIVE EXPENSES

	Six-month period ended	
	30.06.2017	**30.06.2016**
Remuneration expense		
Remuneration to the Council and the Board	117	102
Remuneration to personnel	1 893	1 550
State compulsory social security contributions	473	387
Total remuneration expense:	**2 483**	**2 039**
Lease and maintenance of premises	57	51
Non-deductible input tax	72	72
Telephone, communications and mail	40	48
Software maintenance	61	53
Professional and legal fees	51	64
Stationery and other office expense	14	11
Other personnel expense	52	27
Property tax	23	23
Non-operating expenses	28	7
Other administrative expense	39	29
Total other expense:	**437**	**385**
Administrative expense	**2 920**	**2 424**

* Non-operating expenses in the 6 months of 2017 include donations to public benefit organizations in the amount of 20 thousand EUR (30.06.2016 - no donations were made during the period).

As at 30 June 2017 number of employees in the Bank was 191 (as at 31.12.2016: 178 employees).

The fee for interim audit services paid to an independent auditing company for auditing these financial statements is presented in administrative expenses.
For interim audit as at 30.06.2017, 17.6 thousand EUR have been paid (30.06.2016. - 11.5 thousand EUR).

NOTE 10 PROVISION FOR LOAN IMPAIRMENT

	Loans	Other assets	Total
Balance as at 31 December 2015	**502**	**-**	**502**
Increase	3	26	29
Decrease	(1)	-	(1)
Write-offs	-	(26)	(26)
Balance as at 30 June 2016	**504**	**-**	**504**
Increase	455	19	474
Decrease	-	-	-
Write-offs	(18)	(19)	(37)
Balance as at 31 December 2016	**941**	**-**	**941**
Increase	45	15	60
Decrease	(353)	-	(353)
Write-offs	-	(15)	(15)
Balance as at 30 June 2017	**633**	**-**	**633**

NOTE 11 CASH AND BALANCES WITH THE BANK OF LATVIA

	30.06.2017	**31.12.2016**
Cash	2 392	1 815
Balances with the Bank of Latvia	16 270	23 069
Total	**18 662**	**24 884**

Balances with the Bank of Latvia include cash on the correspondent account and a short-term deposit with the Bank of Latvia. According to the instructions of the Bank of Latvia, the Bank's average monthly balance on its correspondent account may not be less than the compulsory reserve calculated for the balance of liabilities included in the reserve basis on the last day of the month, however, on any given day cash to be used is unlimited . As at 30 June 2017, the Bank's compulsory reserve requirement was EUR 1 485 thousand (31 December 2016: EUR 1 573 thousand).

NOTE 12 DUE FROM CREDIT INSTITUTIONS

	30.06.2017	**31.12.2016**
Demand deposit	**25 748**	**16 785**
Credit institutions registered in Latvia	9 166	3 870
Credit institutions registered in EU	6 056	4 438
Credit institutions of other countries	10 526	8 477
Term deposits	**1 584**	**-**
Credit institutions registered in Latvia	1 584	-
Total	**27 332**	**16 785**

The Bank's average interest rates applicable for the balances due from credit institutions in the first half of 2017 are as follows: EUR -0.4%, RUB 8.047% (in the first half of 2016 respectively: USD 0.606%, EUR -0.4%, RUB 9.221%).

NOTE 13 LOANS

(a) By customer profile

	30.06.2017	31.12.2016
Privat non-financial companies	29 451	28 439
Financial instititions	3 204	2 362
Households	10 139	10 302
Total loans	**42 794**	**41 103**
Allowance for credit losses	(633)	(941)
Net loans	**42 161**	**40 162**

(b) By geographical

	30.06.2017	31.12.2016
Residents of Latvia	36 916	38 522
Residents of EU Member States	1 070	456
Residents of other countries	4 808	2 125
Total loans	**42 794**	**41 103**
Allowance for credit losses	(633)	(941)
Net loans	**42 161**	**40 162**

(c) By type

	30.06.2017	31.12.2016
Commercial loans	9 032	9 429
Industrial loans	3 734	4 542
Finance leases	715	812
Credit card loans	80	81
Mortgage loans	19 637	17 157
Factoring	1 020	1 251
Other loans	7 803	7 612
Cash with financial institutions	773	219
Total loans	**42 794**	**41 103**
Allowance for credit losses	(633)	(941)
Net loans	**42 161**	**40 62**

(d) Loans and advances to customers by quality

	30.06.2017	31.12.2016
Neither past due nor impaired	36 867	35 170
Past due but not impaired	4 394	3 436
Impaired	1 533	2 497
Total gross loans and advances to customers	**42 794**	**41 103**
Allowances for doubtful debts	(633)	(941)
Total net loans and advances to customers	**42 161**	**40 162**

30.06.2017

	Loans	Finance leases	Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**35 542**	**659**	**594**	**72**	**36 867**
Private non-financial companies	22 939	642	594	7	24 182
Financial institutions	3 105	-	-	2	3 107
Private individuals	9 498	17	-	63	9 578
Loans and advances to customers past due but not impaired	**4 380**	**14**	**-**	**-**	**4 394**
Past due up to 30 days	4 014	14	-	-	4 028
Past due 30-60 days	296	-	-	-	296
Past due 60-90 days	67	-	-	-	67
Past due over 90 days	3	-	-	-	3
Total loans and advances to customers individually impaired	**1 057**	**42**	**426**	**8**	**1 533**
Total gross loans and advances to customers	**40 979**	**715**	**1 020**	**80**	**42 794**
Allowances for doubtful debts	(158)	(42)	(426)	(7)	(633)
Total net loans and advances to customers	**40 821**	**673**	**594**	**73**	**42 161**

31.12.2016

	Loans	Finance leases	Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**33 658**	**619**	**825**	**68**	**35 170**
Private non-financial companies	21 840	585	825	7	23 256
Financial institutions	2 259	-	-	4	2 263
Private individuals	9 559	34	-	57	9 650
Loans and advances to customers past due but not impaired	**3 243**	**193**	**-**	**-**	**3 436**
Past due up to 30 days	999	151	-	-	1 150
Past due 30-60 days	71	9	-	-	80
Past due 60-90 days	-	-	-	-	-
Past due over 90 days	2 173	33	-	-	2 206
Total loans and advances to customers individually impaired	**2 058**	**-**	**426**	**13**	**2 497**
Total gross loans and advances to customers	**38 959**	**812**	**1 251**	**81**	**41 103**
Allowances for doubtful debts	(502)	-	(426)	(13)	(941)
Total net loans and advances to customers	**38 457**	**812**	**825**	**68**	**40 162**

(e) Significant credit risk concentration

As at 30 June 2017, the Bank had 3 borrowers or groups of related borrowers, whose total credit liabilities exceeded 10% of the Bank's equity (as at 31 December 2016, there is no group of borrowers or interconnected borrowers). On 30 June 2017, the total amount of credit liabilities (without taking into account collaterals) of borrowers or interconnected borrowers, whose total credit liabilities exceeded 10% of the Bank's equity, amounted to 8.3 million EUR or 34% of the Bank's equity (as of December 31, 2016, there is no group of borrowers or interconnected borrowers).

The Bank’s credit risk concentration to one customer or a group of related customers may not exceed 25% of the Bank’s equity. If a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firms, established in the country comparable to the European Union country (Implementation decision No 2014/908 of European Union and the European Commission of 12 December 2014 / EU on equivalence third countries’ and territories’ supervisory and regulatory requirements to apply the approach to risk tantamount according to the European Parliament and Council Regulation (EU) Nr.575 / 2013), total exposure to the customer shall not exceed 95 per cent of the Bank's equity. On 30 June 2017 and 31 December 2016, the Bank was in compliance with these requirements.

NOTE 14 FINANCIAL ASSETS

a) Financial assets by portfolios

	30.06.2017	31.12.2016
Available-for-sale financial assets		
Debt securities issued by Latvian government	1 913	1 904
Debt sequirities issued by EU central goverment	1 166	-
Debt sequirities issued by other central goverment	2 619	2 224
Debt securities issued by EU credit institutions	4 609	6 632
Debt securities issued by credit institutions of other countries	6 826	9 692
Debt securities issued by EU financial institutions	2 195	2 371
Debt securities issued by Latvia non-financial companies	1 045	1 052
Debt securities issued by EU non-financial companies	1 987	1 035
Debt securities issued by other countries non-financial companies	2 291	1 356
VISA shares	1 084	974
Total available-for-sale financial assets	**25 735**	**27 240**
Held-to-maturity financial investments		
Debt securities issued by the Latvian government	12 748	17 069
Debt securities issued by EU central governments	6 450	6 417
Debt securities issued by EU credit institutions	11 870	12 199
Debt securities issued by credit institutions of other countries	22 558	23 543
Debt securities issued by EU financial companies	2 057	2 051
Debt securities issued by Latvian non-financial companies	1 787	1 762
Debt securities issued by EU non-financial companies	12 500	12 518
Debt securities issued by other countries non-financial companies	5 703	3 854
Total held-to-maturity financial investments	**75 673**	**79 413**

b) Available-for-sale financial assets by geographical profile

	30.06.2017			31.12.2016		
	Carrying amount	**% of equity**	**Re-valuation reserve**	**Carrying amount**	**% of equity**	**Re-valuation reserve**
Central governments	**5 698**	**x**	**(13)**	**4 128**	**x**	**(37)**
USA	2 619	*10.86*	(8)	-	-	-
Other countries	3 079	*12.76*	(5)	4 128	*14.93*	(37)
Credit institutions	**11 435**	**x**	**(181)**	**16 324**	**x**	**(104)**
Canada	2 603	*10.79*	(42)	2 779	*10.05*	(83)
Other countries	8 832	*36.61*	(139)	13 545	*48.99*	(21)
Other financial institution	**2 195**	***9.10***	**(1)**	**2 371**	**8.58**	**(4)**
Private non-financial institutions	**5 323**	***22.06***	**6**	**3 443**	***12.45***	**(10)**
Other financial institutions stocks	**1 084**	**4.49**	**1084**	**974**	**x**	**974**
Total available-for-sale financial assets	**25 735**	**x**	**895**	**27 240**	**x**	**819**

c) Held-to-maturity financial investments by geographical profile

	30.06.2017			31.12.2016		
	Carrying amount	**% of equity**	**Fair value**	**Carrying amount**	**% of equity**	**Fair value**
Central governments	**19 198**	**x**	**19 486**	**23 486**	**x**	**25 560**
Latvia	12 748	*52.84*	13 578	17 069	*61.74*	19 030
Lithuania	4 282	*17.75*	3 910	4 256	*15.39*	4 447
Other countries	2 168	*8.98*	1 998	2 161	*7.82*	2 083
Credit institutions	**34 428**	**x**	**33 826**	**35 742**	**x**	**35 729**
UAE	3 548	*14.71*	3 587	3 845	*13.91*	3 867
UK	6 237	*25.85*	5 951	6 252	*22.61*	6 321
USA	11 067	*45.87*	10 685	11 277	*40.79*	11 205
Other countries	13 576	*56.28*	13 603	14 368	*51.97*	14 336
Other financial institution	**2 057**	***8.53***	**2 074**	**2 051**	***7.42***	**2 046**
Private non-financial institutions	**19 990**	**x**	**19 583**	**18 134**	**x**	**18 432**
Estonia	5 195	*21.53*	5 212	5 144	*18.61*	5 341
Other countries	14 795	*61.32*	14 371	12 990	*46.98*	13 091
Held-to-maturity financial investments, net	**75 673**	**x**	**74 969**	**79 413**	**x**	**81 767**

a) Financial investment qualitative rating

	30.06.2017	31.12.2016
Available-for-sale financial assets risk classes	**27 735**	**27 240**
AAA to A-	19 639	16 176
BBB+ to BBB-	6 096	9 000
BB+ to BB-	-	2 064
Held-to-maturity financial investments risk classes	**75 673**	**79 413**
AAA to A-	46 489	49 868
BBB+ to BBB-	27 082	27 466
BB+ to BB-	2 102	2 079

The Bank uses the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.

Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

On June 30, 2017, the Bank's fair value of financial assets and liabilities met the requirements set out in the first and second tier, with the exception of VISA shares that correspond to third-tier shares.

The Bank’s portfolio of financial assets comprises of debt securities issued by Latvian and other countries’ central governments and debt securities issued by credit and other financial institutions. Investments are made in financial assets according to the Investment Strategy of the Available-for-Sale Portfolio and the Investment Strategy of the Held-to-Maturity Portfolio approved by the Bank. To avoid high risk exposure, the Bank has set sub-limits for new investments in financial instruments and determined that only investments in financial instruments of Latvia central government are allowed and whereby only investments in low-risk instruments, i.e., having at least a credit rating of BBB- and a stable outlook (according to Moody’s, or Fitch or Standard & Poor’s), are allowed.

To identify, in a timely manner, any changes that could produce an adverse effect on the ability and/ or willingness of a particular country’s government and/ or residents to meet their financial liabilities towards the Bank, the Bank keeps pace with the latest news and information about events occurring in the respective countries. For monitoring purposes, credit ratings assigned by three international rating agencies Moody’s Investors Service, Standard & Poor’s, Fitch Ratings those are recalculated as follows: if there is only one risk rating associated for the deal by nominated rating agencies – this rating is applied, but if there are two risk ratings by nominated agencies applicable and both of them applies different risk degree, the rating with higher risk degree applied, but if there are more than two risk ratings by nominated rating agencies, then the Bank selects two risk ratings with the lowest risk and if the different risk rating applies then highest of those two risk ratings is applied. The sources of information are mass media, international organisations engaged in economic analyses and data aggregation as well as rating agencies.

Whenever any events that are likely to produce a material impact on the solvency of any country’s government and/ or residents are reported, the Risk Control Department:

- Informs the Asset and liability committee accordingly,
- Performs closer monitoring of the country and, if necessary, makes suggestions to the Resource Department that no additional investments should be made or country exposure limits for transactions with residents of the respective country should be reduced.

If the Bank’s exposure to residents of the respective country cannot be reduced within the nearest three months, the Bank considers and initiates risk mitigation measures, such as allowances and financial collateral.

NOTE 15 OTHER ASSETS

	30.06.2017	**31.12.2016**
Card operations	2 796	2 545
Security deposit for transactions	5 100	5 429
Deferred payment from the sale of VISA Europe shares	447	447
Input tax	10	23
Inventory (digipass and card blanks)	41	35
Other receivables	154	117
Total	**8 548**	**8 596**

NOTE 16 FUNDS UNDER TRUST MANAGEMENT

	30.06.2017	**31.12.2016**
Assets	**100 049**	**110 427**
Loans to private companies	34 329	41 628
Loans to financial institutions	15 517	15 160
Clients financial instruments cash accounts	438	640
Clients financial instruments undr management	49 765	52 999
Liabilities	**100 049**	**110 427**
Credit institutions	48 654	51 977
Private companies	44 666	56 621
Households	6 729	1 828

The Bank issues loans or makes investments in financial instruments classified as funds under trust management based on specific requests of asset owners. According to the trust management agreements concluded with customers, the asset owners assume all the risks inherent in these assets, the Bank has no control over these assets and does not received any direct rewards from these assets. The Bank acts only as an intermediary receiving the management fee.

The accumulated, but not received commission on the management of funds on June 30, 2017 is 65 thousand EUR (70 thousand EUR at 31 December 2016).

NOTE 17 DEPOSITS FROM CUSTOMERS

(a) Demand and term deposits split by customer profile:

	30.06.2017	31.12.2016
Demand deposits	**128 289**	**131 415**
Financial institutions	20 245	12 308
Private companies	78 393	87 306
Households and non-profit public organizations	29 651	31 801
Term deposits	**35 462**	**36 974**
Private companies	4 591	5 436
Households and non-profit public organizations	30 871	31 538
Total	**163 751**	**168 389**

(b) Demand and term deposits split by geographical profile

	30.06.2017	31.12.2016
Demand deposits	**128 289**	**131 415**
Residents of Latvia	37 352	41 222
Residents of EU Member States	52 962	52 810
Residents of other countries	37 975	37 383
Term deposits	**35 462**	**36 974**
Residents of Latvia	28 127	30 737
Residents of EU Member States	144	307
Residents of other countries	7 191	5 930
Total	**163 751**	**168 389**

The Bank’s average interest rate on customer deposits for the first half of 2017 is 1.476% (USD) and 1.408% (EUR). In the first half of 2016: 1.551% (USD), 1.586% (EUR).

NOTE 18 OTHER LIABILITIES

	30.06.2017	31.12.2016
Payment card settlements	9 502	3 984
Liabilities under clarification	1 043	137
Third party resources to secure transactions	592	-
Taxes	20	37
Other liabilities	40	47
Total	**11 197**	**4 205**

NOTE 19 NEXT PERIOD INCOME AND ACCRUED EXPENSE

	30.06.2017	31.12.2016
Payment card servicing	219	133
Vacation pay reserve	268	184
Payments to the Deposit Guarantee Fund and the FCMC	75	55
Servicing of correspondent and financial instrument accounts	12	20
Accrued payments to agents	153	405
Other accrued expense	18	96
Accrued income	11	15
Total	**756**	**908**

NOTE 20 PAID-IN SHARE CAPITAL

As at 30 June 2017, the Bank’s registered and paid-in share capital was EUR 13 million (31 December 2016: EUR 13 million).

The Bank’s share capital consists of only ordinary voting shares. The par value of each share is EUR 1. As at 30 June 2017, all shares were fully paid and the Bank did not hold its own shares.

As at 30 June 2017 and 31 December 2016, the sole shareholder of the Bank is SIA Mono, reg. No. 40003004625, legal address Riga, Katlakalna iela 1, which is also the ultimate parent company of the group. The shareholder company has three ultimate beneficiaries, each of which does not have individual control over the Bank.

NOTE 21 EARNING PER SHARE

Earnings per share are calculated by dividing net profit by the number of shares issued.

	Six-month period ended	
	30.06.2017	**30.06.2016**
Net profit	4 103	8 051
Number of ordinary shares at reporting date (‘000)	13 000	13 000
Earnings per share (EUR)	**0.316**	**0.619**

NOTE 22 CASH AND CASH EQUIVALENTS

	30.06.2017	31.12.2016
Cash and demand deposits with the Bank of Latvia	18 662	24 884
Balances due from other credit institutions with original maturities of less than 3 months	27 332	16 785
Total	**45 994**	**41 669**

NOTE 23 MEMORANDUM ITEMS

	30.06.2017	31.12.2016
Contingent liabilities	**1 426**	**1 249**
Guarantees	1 426	1 249
Financial commitments	**3 680**	**3 010**
Unutilised credit lines	3 245	2 592
Credit card commitments	435	418
Total memorandum items, gross	**5 106**	**4 259**

NOTE 24 RELATED PARTY DISCLOSURES

Related parties are defined as shareholders that have the ability to control or exercise significant influence over the Bank’s management policy, Council and Board members, close members of their families, and entities in which these persons have a controlling interest and a qualifying holding. In the ordinary course of business, the Bank enters into transactions with related parties. All loans are issued to and financial transactions are made with related parties on an arm’s length basis. As at 30 June 2017, there were no any loans issued to related parties that would have been past due or impaired.

The Bank’s financial statements include the following balances of assets, liabilities and memorandum items associated with the Bank’s transactions with related parties:

	30.06.2017			31.12.2016		
	Carrying amount	**Memoran-dum items**	**Total**	**Carrying amount**	**Memoran-dum items**	**Total**
Assets	**1 235**	**176**	**1 411**	**1 255**	**608**	**1 863**
Loans and receeivbles, net	**1 235**	**176**	**1 411**	**1 255**	**608**	**1 863**
Parent company	-	-	-	-	-	-
Council and Board	238	112	350	134	227	361
Related companies and persons	997	64	1 061	1 121	381	1 502
Derivative financial instruments	**-**	**19 704**	**19 704**	**-**	**30 049**	**30 049**
Relates companies and persons	-	19 704	19 704	-	30 049	30 049
Liabilities	**19 538**	**-**	**19 538**	**30 172**	**-**	**30 172**
Deposits	**19 538**	**-**	**19 538**	**30 172**	**-**	**30 172**
Parent company	2 836	-	2 836	247	-	247
Council and Board	10 895	-	10 895	10 130	-	10 130
Related companies and persons	5 807	-	5 807	19 795	-	19 795
Liabilities under management	**-**	**46 938**	**46 938**	**-**	**57 623**	**57 623**
Council and Board	-	685	685	-	717	717
Related companies and persons	-	46 253	46 253	-	56 906	56 906

The table below presents income and expense on the balances due from/ to related parties:

	Six-month period ended	
	30.06.2017	**30.06.2016**
Interest income	40	63
Interest expense	(39)	(40)
Net interest expense	**1**	**23**
Commission and fee income	**140**	**154**

NOTE 25 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of assets and liabilities, because AFS and derrivatives are reflected at fair value, are as follows:

Cash and balances with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions

The fair value of balances on demand with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to the short-term maturity profile.

Loans

The fair value of loans is calculated by discounting expected future cash flows. The discount rate used is the market rate for cash at the end of the reporting period and credit rate margins adjusted to the respective market conditions.

Held-to-maturity securities

Held-to-maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or the value of securities is determined using valuation models employing observable or non-observable market inputs.

Available-for-sale financial assets

Available-for-sale financial assets are revalued on a daily basis using the prices quoted by Bloomberg and, therefore, their fair value is equal to the carrying amount. The only exception is VISA Inc. shares acquired from the sales of VISA Europe limited and reported under available-for-sale financial assets. The ratio of preference shares to VISA Inc. ordinary shares as suggested by VISA Inc. is 1:13.952. Given the fact that the preferred shares are not traded in free trade and that their exchange for ordinary shares will take a place over a long period of time, the Bank determines the value of preference shares and uses the Bloomberg quotations for ordinary shares applying a 50% reduction of the value.

Deposits from customers

It is assumed that the fair value of customer deposits repayable on demand and short-term deposits is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates or the rates proposed at the end of the reporting period. The fair value as at 30 June 2017 and 31 December 2016 is calculated by discounting expected cash flows and based on the average interest rates.

Derivative financial instruments

Derivative financial instruments are revalued on a daily basis according to the interbank rates and, therefore, the fair value of these instruments equals their carrying amount.

The table below shows a comparison, by class, of the carrying amounts and fair values of the Bank’s financial instruments reported in the financial statements.

	30.06.2017			**31.12.2016**		
	Carrying amount	**Fair value**	**Difference**	**Carrying amount**	**Fair value**	**Difference**
Financial assets						
Financial assets at amortised cost						
Cash and balances with the Bank of Latvia	18 662	18 662	-	24 884	24 884	-
Due from credit institutions	27 332	27 332	-	16 785	16 785	-
Held-to-maturity financial investments	75 673	74 969	704	79 413	81 767	(2 354)
Loans and receivables	42 161	41 881	280	40 162	39 880	282
Financial assets at fair value						
Available-for-sale financial assets	25 735	25 735	-	27 240	27 240	-
Other assets	8 548	8 548	-	8 596	8 596	-
Financial liabilities						
Financial liabilities at amortised cost						
Deposits from customers	163 751	163 739	12	168 389	168 376	13
Financial liabilities at fair value						
Other liabilities	11 197	11 197	-	4 205	4 205	-
Total difference			**996**			**(2 059)**

30.06.2017

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	27 332	-	27 332	-	27 332
Held-to-maturity financial investments	75 673	-	74 969	-	74 969
Loans and receivables	42 161	-	41 881	-	41 881
Financial assets at fair value					
Available-for-sale financial assets	25 735	24 651	-	1 084	25 735
Other assets	8 548	-	-	8 548	8 548
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	163 751	-	163 739	-	163 739
Financial liabilities at fair value					
Other liabilities	11 197	-	-	11 197	11 197

31.12.2016

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	16 785	-	16 785	-	16 785
Held-to-maturity financial investments	79 413	-	81 767	-	81 767
Loans and receivables	40 162	-	39 880	-	39 880
Financial assets at fair value					
Available-for-sale financial assets	27 240	26 266	-	974	27 240
Other assets	8 596	-	-	8 596	8 596
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	168 389	-	168 376	-	168 376
Financial liabilities at fair value					
Other liabilities	4 205	-	-	4 205	4 205

Below is presented third level input valued Available-for-sale financial assets movement:

	Available-for-sale financial assets
Balance as at 31 December 2015	**-**
Additions	875
Balance as at 30 June 2016	**875**
Net revaluation result	99
Balance as at 31 December 2016	**974**
Net revaluation result	110
Balance as at 30 June 2017	**1 084**

Considering the short-term nature of cash and cash equivalents, fair value for receivables and payables equals their carrying amount.

Breakdown by sources of fair value determination as of June 30, 2017, is reflected using the same methodology as the breakdown as of December 31, 2016.

NOTE 26 CAPITAL MANAGEMENT

The capital adequacy calculation of the Bank can be disclosed as follows:

		30.06.2017	31.12.2016
1.	**Equity** *(1.1.+1.2.)*	**24 126**	**27 646**
1.1.	Level 1 capital *(1.1.1.+1.1.2.)*	24 126	27 646
1.1.1.	*Level 1 base capital*	24 126	27 646
1.1.2.	*Level 1 additional capital*	-	-
1.2.	Level 2 capital	-	-
2.	**Total risk ezposure value** *(2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)*	**118 396**	**107 458**
2.1.	Risk- weighted exposure amount for credit risk, counterparty credit risk, dilution risk and unpaid delivery risk *(2.1.1.+2.1.2.+2.1.3.+2.1.4.+2.1.5.)*	93 513	91 217
2.1.1.	*Central goverments and central banks*	256	1 050
2.1.2.	*Authorities*	19 052	20 347
2.1.3.	*Companies*	59 720	52 271
2.1.4.	*Secured by real estate mortgage*	4 363	3 495
2.1.5.	*Other assets*	10 276	14 054
2.2.	Total exposure value of settlement / delivery	-	-
2.3.	Total exposure value for position risk, foreign exchange risk and commodity risk	1 769	402
2.4.	Total exposure value for operational risk	22 814	15 839
2.5.	Total exposure value of credit value adjustments	-	-
2.6.	Total exposure value associated with large exposures in the trading portfolio	-	-
2.7.	Other risk values	-	-
3.	**Ratio of capital and capital levels**		
3.1.	Level 1 base capital ratio *(1.1.1./2.*100)*	20.40 %	25.73 %
3.2.	Level 1 base capital surplus (+)/ deficit (-) *(1.1.1.-2.*4.5%)*	18 805	22 810
3.3.	Level 1 ratio *(1.1./2.*100)*	20.40%	25.73 %
3.4.	Level 1 surplus (+)/deficit (-) *(1.1.-2.*6%)*	17 031	21 199
3.5.	**Total capital ratio** *(1./2.*100)*	**20.40 %**	**25.73 %**
3.6.	Total capital surplus (+)/ deficit (-) *(1.-2.*8%)*	14 666	19 049
4.	**The capital adequacy ratio** *(4.1.+4.2.+4.3.+4.4.+4.5.)*	3.52 %	2.50 %
4.1.	The capital conservation buffer (%)	2.50	2.50
4.2.	Specific countercyclical capital buffer (%)	0.02	-
4.3.	Systemic risk capital buffer (%)	1.00	-
4.4.	Systemically relevant institution's capital buffer (%)	-	-
4.5.	Other systemically relevant institution's capital buffer (%)	-	-
5.	**Adjusted capital ratio**		
5.1.	Loan impairment or asset value adjustment amount, applying the policy for Calculating the Minimum Capital requirements	-	-
5.2.	Level 1 base capital ratio taking into account the adjustment amount reported in point 5.1.	20.40%	25.73%
5.3.	Level 1 capital ratio taking into account the adjustment amount reported in point 5.1.	20.40%	25.73%
5.4.	**Total capital ration taking into account the adjustment amount reported in point 5.1.**	**20.40 %**	**25.73 %**

NOTE 27 EVENTS AFTER REPORTING DATE

During the period between the last day of the reporting period and the date of signing the financial statements there have not been events that require adjustment to the financial statements.

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