RIETUMU BANKA AS

Condensed Interim Bank Separate and Group Consolidated Financial Statements
For the six month period ended 30 June 2017

Contents

Report of Council and Board of Directors

Dear Shareholders, Customers and Business Partners

2017 marks the 25th anniversary of Rietumu Bank and during the first half of 2017 the Rietumu Bank Group continued to successfully develop its operations. The Group's revenues are diversified between interest and commission and despite the low interest rate environment the Group continued to operate very efficiently.

Quality and Individual approach

The Group specializes on servicing corporate customers and high net worth individuals. The Group has extensive experience in the EU and CIS countries and understands the business environments in both Western and Eastern Europe. The Group focuses on larger privately owned businesses to which offers a broad range of products. By maintaining close contact to our clients through our extensive network of representative offices, we have continued to successfully cooperate with our customers. The Bank employs the latest technologies in developing new products our emphasis has always been on employing the latest technologies.

The Bank follows a conservative lending policy while offering innovative and individually tailored products that suit the requirements of each individual customer the best. The Bank focuses the development of its international lending business in new lending markets such as Ireland and the United Kingdom. Other non-banking subsidiaries in the Group include leasing and consumer finance companies, repossessed real estate and other repossessed collateral maintenance companies and asset management. It is the Bank's strategy as much as possible to fully integrate its subsidiaries into the Bank's management and control systems.

Financial review

The Group closed first half of 2017 with after tax profit attributable to the Bank's shareholders of EUR 6,6 million. Income distribution was well diversified across the business units of the Group. During the first half of 2017 the Bank had to make a significant provision for litigation and fines of EUR 20 million for potential fines in France.

As at 30 June 2017 the Group's total assets were EUR 3,242 million. This represents a decrease of 6.68% compared to 2016 and this slow-down is due to the general economic situation in the region we operate in as well as the Bank purposefully changing the focus on larger customers resulting in the loss of some smaller customers. 60% of the Bank's assets are invested in liquidity management portfolios with 19% of this invested in short term money market placement with large mainly European banks. During the first half of 2017 loans and receivables due from customers decreased by 6.8% to EUR 974 million. The decrease was due to the Bank continuation of the downsizing its CIS portfolio. Loans and receivables due from customers represent 30% of total assets and since 2010 this ratio has not exceeded 45%.

The funding sources of the Group remained unchanged in that the Group finances its activity through current accounts and deposits due to customers and shareholders' equity. Current accounts and deposits due to customers were EUR 2,510 million decreased by 8.5% compared to 2016. The fall in deposits was due to the general economic environment and a refocusing of the Bank customer base to larger customers. The Group total shareholders' equity was EUR 480 million as of 30 June 2017 representing a 2.8% decrease from 2016. The Group total capital adequacy ratio was 22.74% (2016: 22.36%) forming the basis for maintaining financial stability and growth in the Group for more than 20 years.

The first 6 months of our 25th anniversary year presented many new opportunities to the Bank and we believe that the remainder of the year will also prove to be very successful. We owe our success to our customers and business partners and the trust that they have placed in us.

Financial results of the Group

	30 June 2017 (6 months)	31 December 2016	30 June 2016 (6 months)	31 December 2015	30 June 2015 (6 months)
At period end (EUR '000)					
Total assets	3,241,516	3,473,590	3,599,227	3,794,153	3,630,036
Loans and receivables due from customers	974,081	1,044,920	1,024,737	1,101,772	1,102,137
Current accounts and deposits due to customers	2,509,837	2,742,726	2,884,668	3,203,992	3,165,111
Total shareholder's equity	480,145	493,874	464,363	456,869	376,747
For the period (EUR '000)					
Net profit before income tax	10,825	88,748	56,062	81,176	41,315
Net profit after tax	6,570	82,337	53,230	70,043	35,894
Net interest income	34,337	78,355	39,014	83,158	40,865
Net fee and commission income	17,056	41,095	20,299	44,124	20,943
Capital adequacy ratio	22.7%	22.4%	19.9%	19.2%	18.7%

Financial results of the Bank

	30 June 2017 (6 months)	31 December 2016	30 June 2016 (6 months)	31 December 2015	30 June 2015 (6 months)
At period end (EUR '000)					
Total assets	3,232,596	3,465,604	3,594,833	3,785,767	3,629,119
Loans and receivables due from customers	1,047,958	1,116,873	1,077,979	1,151,789	1,153,662
Current accounts and deposits due to customers	2,530,871	2,767,739	2,912,301	3,231,558	3,189,229
Total shareholders' equity	461,726	471,546	442,513	432,841	362,382
For the period (EUR '000)					
Profit before income tax	11,564	86,509	54,145	81,940	43,029
Profit for the period	7,718	80,300	51,294	72,179	37,617
Net interest income	29,794	69,449	34,147	76,330	37,575
Net fee and commission income	16,796	40,829	20,161	43,684	20,807
Capital adequacy ratio	23%	22.6%	20.3%	19.4%	19.0%

Statement of management responsibility

The management of the AS Rietumu Banka (the Bank) is responsible for the preparation of the condensed consolidated interim financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the condensed interim financial statements of the Bank. The condensed Group consolidated and Bank's separate interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* 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 condensed interim financial statements.

The condensed Group consolidated and Bank's separate interim financial statements on pages 6 - 64 are prepared in accordance with the source documents and present the financial position of the Group and the Bank as at 30 June 2017 and the results of its performance and cash flows for the six month period ended 30 June 2017.

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

CONDENSED INTERIM BANK SEPARATE AND GROUP CONSOLIDATED INCOME STATEMENT

		6 month period ended 30 June 2017		6 month period ended 30 June 2016	
	Note	'000 EUR Group	'000 EUR Bank	'000 EUR Group	'000 EUR Bank
Interest income	7	46,067	40,605	52,169	47,024
Interest expense	7	(11,730)	(10,811)	(13,155)	(12,877)
Net interest income		**34,337**	**29,794**	**39,014**	**34,147**
Fee and commission income	8	35,449	35,035	33,499	33,305
Fee and commission expense	9	(18,393)	(18,239)	(13,200)	(13,144)
Net fee and commission income		**17,056**	**16,796**	**20,299**	**20,161**
Net gain on financial instruments at fair value through profit or loss		509	(31)	1,132	15
Net foreign exchange gain		9,842	10,968	10,984	10,750
Net realised gain on available-for-sale assets	10	21	54	31,137	31,137
Share of loss of equity accounted investees (net of income tax)		(1)	-	(12)	-
Other income/(expense)	11	7,006	3,532	3,873	2,154
Operating Income		**68,770**	**61,113**	**106,427**	**98,364**
Impairment losses	12	(2,162)	(3,411)	(14,508)	(15,882)
General administrative expenses	13	(55,783)	(46,138)	(35,857)	(28,337)
Profit before income tax		**10,825**	**11,564**	**56,062**	**54,145**
Income tax expense	14a,b	(4,255)	(3,846)	(2,832)	(2,851)
Profit for the period		**6,570**	**7,718**	**53,230**	**51,294**
Attributable to:					
Equity holders of the Bank		6,113		52,747	
Non-controlling interest		457		483	

The accompanying notes on pages 16 to 64 are an integral part of the condensed interim Bank separate and Group consolidated financial statements.

The condensed interim Bank separate and Group consolidated financial statements as set out on pages 6 to 64 are authorised on 31 August 2017 by:

Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

CONDENSED INTERIM BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	6 month period ended 30 June 2017 '000 EUR Group	'000 EUR Bank	6 month period ended 30 June 2016 '000 EUR Group	'000 EUR Bank
Profit for the period		**6,570**	**7,718**	**53,230**	**51,294**
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		1,442	-	(2,028)	-
Net change in other reserves		(1)	-	-	-
Available-for-sale financial assets – net change in fair value		1,332	1,528	(20,705)	(20,151)
Related tax	14c	(145)	(205)	(519)	(519)
Other comprehensive income for the period		**2,628**	**1,323**	**(23,252)**	**(20,670)**
Total comprehensive income for the period		**9,198**	**9,041**	**29,978**	**30,624**
Attributable to:					
Equity holders of the Group		**8,741**		**29,495**	
Non-controlling interest		**457**		**483**	

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Member of the Board
Rolf Paul Fuls

CONDENSED INTERIM BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
ASSETS					
Cash and balances with the central bank	15	776,570	776,516	836,961	836,920
Financial instruments at fair value through profit or loss	16	15,630	813	17,052	1,333
Loans and receivables due from banks	17	530,339	529,774	522,424	521,721
Loans and receivables due from customers	18	974,081	1,047,958	1,044,920	1,116,873
Reverse repo	33	85,572	85,572	93,435	93,435
Available-for-sale assets	19	387,627	428,266	467,584	510,978
Non-current assets held for sale		146	-	124	-
Held-to-maturity investments	20	295,972	293,030	319,574	315,848
Investments in subsidiaries	21	-	27,319	-	28,381
Equity accounted investees	34	6	-	7	-
Investment property	24	90,235	10,640	91,299	10,687
Property and equipment	22	45,002	8,046	45,488	7,943
Intangible assets	23	3,251	2,347	4,602	2,822
Current tax asset		2,433	2,039	6,064	5,699
Deferred tax asset		207	-	259	-
Other assets	25	34,445	20,276	23,797	12,964
Total Assets		**3,241,516**	**3,232,596**	**3,473,590**	**3,465,604**

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CONDENSED INTERIM BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
LIABILITIES AND SHAREHOLDERS' EQUITY					
Financial instruments at fair value through profit or loss	16	144	144	442	442
Due to Bank of Latvia		120,000	120,000	120,000	120,000
Deposits and balances due to banks	26	30,146	29,903	34,096	33,957
Current accounts and deposits due to customers	27	2,509,837	2,530,871	2,742,726	2,767,739
Issued debt securities	28	55,037	55,104	57,809	57,985
Provisions	32	20,000	20,000	-	-
Current tax liability		212	-	222	-
Deferred tax liability		3,263	1,171	3,110	933
Other liabilities and accruals	29	22,732	13,677	21,311	13,002
Total Liabilities		**2,761,371**	**2,770,870**	**2,979,716**	**2,994,058**
Share capital	30	168,916	168,916	168,916	168,916
Share premium	30	52,543	52,543	52,543	52,543
Revaluation reserve		1,330	-	1,340	-
Fair value reserve		2,992	6,057	1,805	4,734
Currency translation reserve		(1,629)	-	(3,071)	-
Other reserves		105	23	106	23
Retained earnings		244,779	234,187	257,517	245,330
Total Equity Attributable to:					
Equity Holders of the Bank		**469,036**	**461,726**	**479,156**	**471,546**
Non-controlling Interest		**11,109**	**-**	**14,718**	**-**
Total Shareholders' Equity		**480,145**	**461,726**	**493,874**	**471,546**
Total Liabilities and Shareholders' Equity		**3,241,516**	**3,232,596**	**3,473,590**	**3,465,604**

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CONDENSED INTERIM BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6 month period ended 30 June 2017		6 month period ended 30 June 2016	
		'000 EUR	'000 EUR	'000 EUR	'000 EUR
		Group	Bank	Group	Bank
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		10,825	11,564	56,062	54,145
Amortization and depreciation	22, 23	2,248	1,341	1,924	917
(Gain) from sale of investment property		(39)	-	-	-
Revaluation of property, plant and equipment		-	-	(102)	-
Revaluation of investment property		349	-	1,524	-
Share of loss of equity accounted investees		1	-	46	-
(Gain)/ losses on disposal of property and equipment		(248)	-	22	(103)
Loss on sale of subsidiary		1,513	760	-	-
Increase of provisions		20,000	20,000	-	-
Impairment losses	12	2,162	3,411	14,508	15,882
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**36,811**	**37,076**	**73,984**	**70,841**
Decrease in financial instruments at fair value through profit or loss		1,422	520	954	122
(Increase)/ decrease in loans and receivables due from banks – term deposits		18,272	18,966	(139,450)	(139,450)
(Increase)/ decrease in loans and receivables from customers		69,420	67,863	63,172	60,117
(Increase)/ decrease in receivable under reverse repurchase agreements		7,863	7,863	(45,536)	(45,536)
(Increase)/ decrease in available-for-sale assets		81,289	82,379	(102,070)	(101,795)
(Increase) in other assets		(10,242)	(7,812)	(2,232)	(1,478)
Increase/ (decrease) in derivative liabilities		(298)	(298)	255	255
Increase / (decrease) in term deposit deposits due to banks		(182)	(286)	141	820
(Decrease) in current accounts and deposits from customers		(232,889)	(236,868)	(319,324)	(319,257)
(Increase)/ decrease in non-current assets held for sale		(22)	-	46	-
Increase in amounts payable under repurchase agreements		-	-	120,000	120,000
Increase in other liabilities and accruals		1,511	675	6,983	8,477
Increase/(Decrease) in cash and cash equivalents from operating activities before corporate income tax		**(27,045)**	**(29,922)**	**(343,077)**	**(346,884)**
Corporate income tax paid		(568)	(152)	(4,972)	(3,940)
Net cash and cash equivalents from operating activities		**(27,613)**	**(30,074)**	**(348,049)**	**(350,824)**
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	22,23	(1,533)	(973)	(1,383)	(1,236)
Proceeds from sale of property and equipment and other assets		305	4	-	-
(Increase)/ decrease in Investment property		869	47	-	(37)
(Increase) in equity investments in other entities and acquisition of subsidiaries		-	-	-	(6)
Consideration paid for acquisition of subsidiaries		-	-	(10)	-
(Increase)/ decrease in held-to-maturity financial assets		23,602	22,818	(49,265)	(48,957)
Sale of non-controlling interest		(2,890)	-	(699)	-
Proceeds from sale of subsidiary		328	303	-	-
Acquisition of Investment property		-	-	(1,653)	-
Cash and cash equivalents used in / from investing activities		**20,681**	**22,199**	**(53,010)**	**(50,236)**

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CONDENSED INTERIM BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6 month period ended 30 June 2017		6 month period ended 30 June 2016	
		'000 EUR Group	'000 EUR Bank	'000 EUR Group	'000 EUR Bank
CASH FLOW FROM FINANCING ACTIVITIES					
Decrease in other reserves		(1)	-	-	-
Issued debt securities		-	-	-	(707)
Interest on issued debt securities	28	(2,772)	(2,881)	-	(707)
Dividends paid		(20,037)	(18,861)	(21,785)	(20,952)
Other borrowed funds		-	-	294	-
Cash and cash equivalents from financing activities		**(22,810)**	**(21,742)**	**(21,491)**	**(21,659)**
Net cash flow for the period		**(29,742)**	**(29,617)**	**(422,550)**	**(422,719)**
Cash and cash equivalents at the beginning of the period		**1,306,828**	**1,306,084**	**1,651,735**	**1,651,276**
Cash and cash equivalents at the end of the period	15	**1,277,086**	**1,276,467**	**1,229,185**	**1,228,557**

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Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

CONDENSED INTERIM BANK'S SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Revaluation reserve	Fair value reserve	Other reserves	Retained earnings	Total equity
	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR
Balance at 1 January 2016	**168,916**	**52,543**	**-**	**25,377**	**23**	**185,982**	**432,841**
Total comprehensive income							
Profit for the period	-	-	-	-	-	51,294	**51,294**
Other comprehensive income	-	-	-	(20,670)	-	-	**(20,670)**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(20,952)	**(20,952)**
Balance at 30 June 2016	**168,916**	**52,543**	**-**	**4,707**	**23**	**216,324**	**442,513**
Total comprehensive income							
Profit for the period	-	-	-	-	-	29,006	**29,006**
Other comprehensive income	-	-	-	27	-	-	**27**
Balance at 31 December 2016	**168,916**	**52,543**	**-**	**4,734**	**23**	**245,330**	**471,546**
Total comprehensive income							
Profit for the period	-	-	-	-	-	7,718	**7,718**
Other comprehensive income	-	-	-	1,323	-		**1,323**
Transactions with shareholders recorded directly in equity							
Dividends paid	-	-	-	-	-	(18,861)	**(18,861)**
Balance at 30 June 2017	**168,916**	**52,543**	**-**	**6,057**	**23**	**234,187**	**461,726**

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Member of the Board
Rolf Paul Fuls

CONDENSED INTERIM GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to Equity Holders of the Bank									
	Share capital ’000 EUR	**Share premium ’000 EUR**	**Revaluation reserve ’000 EUR**	**Fair value reserve ’000 EUR**	**Foreign currency translation reserve ’000 EUR**	**Other reserves ’000 EUR**	**Retained earnings ’000 EUR**	**Total ’000 EUR**	**Non-controlling interest ’000 EUR**	**Total Equity ’000 EUR**
Balance at 1 January 2016	**168,916**	**52,543**	**1,364**	**23,252**	**(1,517)**	**106**	**198,357**	**443,021**	**13,848**	**456,869**
Transactions with shareholders recorded directly in equity										
Dividends paid	-	-	-	-	-	-	(20,952)	**(20,952)**	-	**(20,952)**
Transactions with non controlling interest										
Transaction with third parties related to units of funds controlled by the Group	-	-	-	-	-	-	-	**-**	(699)	**(699)**
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	**-**	(833)	**(833)**
Total comprehensive income										
Profit for the period	-	-	-	-	-	-	52,747	**52,747**	483	**53,230**
Other comprehensive income	-	-	-	(21,224)	(2,028)	-	-	**(23,252)**	-	**(23,252)**
Other										
Depreciation of revalued property	-	-	(10)	-	-	-	10	-	-	-
Balance at 30 June 2016	**168,916**	**52,543**	**1,354**	**2,028**	**(3,545)**	**106**	**230,162**	**451,564**	**12,799**	**464,363**

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CONDENSED INTERIM GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Attributable to Equity Holders of the Bank

	Share capital	Share premium	Revaluation reserve	Fair value reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total Equity
	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR	’000 EUR
Balance at 30 June 2016	**168,916**	**52,543**	**1,354**	**2,028**	**(3,545)**	**106**	**230,162**	**451,564**	**12,799**	**464,363**
Transactions with non controlling interest										
Transactions with third parties related to units of funds controlled by the Group	-	-	-	-	-	-	-	**-**	153	**153**
Total comprehensive income										
Profit for the current period	-	-	-	-	-	-	27,341	**27,341**	1,766	**29,107**
Other comprehensive income	-	-	-	(223)	474	-	-	**251**	-	**251**
Other										
Depreciation of revalued property	-	-	(14)	-	-	-	14	-	-	-
Balance at 31 December 2016	**168,916**	**52,543**	**1,340**	**1,805**	**(3,071)**	**106**	**257,517**	**479,156**	**14,718**	**493,874**

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CONDENSED INTERIM GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to Equity Holders of the Bank									
	Share capital	Share premium	Revaluation reserve	Fair value reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR	'000 EUR
Balance at 31 December 2016	**168,916**	**52,543**	**1,340**	**1,805**	**(3,071)**	**106**	**257,517**	**479,156**	**14,718**	**493,874**
Transactions with shareholders recorded directly in equity										
Dividends paid	-	-	-	-	-	-	(18,861)	**(18,861)**	-	**(18,861)**
Transactions with non controlling interest										
Transaction with third parties related to units of funds controlled by the Group	-	-	-	-	-	-	-	**-**	(2,890)	**(2,890)**
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	**-**	(1,176)	**(1,176)**
Total comprehensive income										
Profit for the period	-	-	-	-	-	-	6,113	**6,113**	457	**6,570**
Other comprehensive income	-	-	-	1,187	1,442	(1)	-	**2,628**	-	**2,628**
Other										
Depreciation of revalued property	-	-	(10)	-	-	-	10	**-**	-	**-**
Balance at 30 June 2017	**168,916**	**52,543**	**1,330**	**2,992**	**(1,629)**	**105**	**244,779**	**469,036**	**11,109**	**480,145**

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Chairman of the Board
Alexander Pankov

Member of the Board
Rolf Paul Fuls

1 Background

These condensed interim separate and consolidated financial statements include the financial statements of JSC “Rietumu Banka” (the “Bank”) and its subsidiaries (together referred to as the “Group”). There have been no significant changes in Group structure since 31 December 2016.

JSC “Rietumu Banka” was established in the Republic of Latvia as a joint stock company and was granted its general banking licence in 1992.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission (“FCMC”) of the Republic of Latvia.

The registered address of the Bank’s head office is Vesetas Street 7, Riga, Latvia.

2 Basis of preparation

(a) Statement of compliance

These condensed interim separate and consolidated financial statements (the “financial statements”) are prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. These condensed interim separate and consolidated financial statements do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the Bank Separate and Group Consolidated Financial Statements as at and for the year ended 31 December 2016.

The audited financial statements as at and for the year ended 31 December 2016 are available at the Bank’s web site: www.rietumu.com.

The Board approved the condensed interim separate and consolidated financial statements for issue on 31 August 2017. The shareholders have the power to reject the separate and consolidated financial statements prepared and issued by management and the right to request that new financial statements be issued.

(b) Basis of measurement

The condensed interim separate and consolidated financial statements are prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value;
- owner occupied buildings which are stated at revalued amounts being the fair value at the date of valuation less accumulated depreciation;
- investment property which is stated at fair value.

(c) Functional and Presentation Currency

These condensed interim separate and consolidated financial statements are presented in thousands of euro (EUR 000’s).

The functional currencies of principal subsidiaries of the Bank are EUR except for the subsidiaries listed below:

RB Securities Ltd.	USD (US dollar)
Rietumu Asset Management funds	USD (US dollar)
Rietumu Leasing Ltd.	BYR (Belarus rouble)

3 Significant accounting policies

The accounting policies applied by the Bank and the Group in these condensed interim separate and consolidated financial statements are the same as those applied by the Bank and the Group in their financial statements as at and for the year ended 31 December 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

Adoption of new or revised standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group and the Bank are set out below. The Group and the Bank do not plan to adopt these standards early.

(i) IFRS 9: Financial instruments (effective for annual periods beginning on or after 1 January 2018)

In July 2014 the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements and Bank's separate financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group and the Bank hold and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group and the Bank to revise their accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group and the Bank are in the process of performing a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016.

IFRS 9 implementation strategy

The Group's IFRS 9 implementation process is governed by a Steering Committee whose members include representatives from risk, finance, operations and IT functions. The Steering Committee meets weekly to challenge key assumptions, approve decisions and monitor the progress of the implementation work across the Group, including evaluation of whether the project has sufficient resources.

The Group and the Bank have completed a preliminary impact assessment and most of the accounting analysis and has commenced work on the design and build of models, systems, processes and controls.

During the 1st half of 2017 the Group and the Bank have been actively working on implementing the requirements of IFRS 9 standards. The members of the Steering Committee have been working on data classification and measurement issues, acquiring information from the system and estimating possible impairments. Overall project stages, tasks to be performed and time schedule are set under the supervision of external auditors. Senior management is regularly being informed about the progress in order to assure forehanded decision making.

The Group and the Bank have done a preliminary SPPI testing of all the asset portfolios and considers the challenges of SPPI testing to be of low risk in most cases. Generally, there will be no significant reclassifications of the financial instruments between IAS 39 and IFRS 9 categories.

The Group and the Bank are planning to use different approaches/models to estimate Expected Credit Loss for different asset types and stages, including forward looking scenarios with macro-economic factors. It is targeted to use models' validation testing on semi-annual basis.

After the launch of IFRS 9, the Group and the Bank will continue to assess individually the largest loans in the portfolio.

3 Significant accounting policies, continued

Classification and measurement

From classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated as FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statements, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Group and the Bank have concluded that:

- The majority of loans and advances to banks, loans and advances to customers, cash collateral for reverse repo agreements and balances with financial institutions that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9.
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to continue to be measured at FVPL.
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held.
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The group and the Bank will be required to record an allowance for expected loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Group and the Bank have established a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

In comparison to IAS 39, the Group and the Bank expect the impairment charge under IFRS 9 to result in an increase in the total level of current impairment allowances.

3 Significant accounting policies, continued

The Group and the Bank are planning to group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are fist recognized, the Group and the Bank recognize an allowance based on twelve months expected credit losses. Under IAS 39 the Group and the Bank have been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. The change is expected to increase the impairment allowance compared to the current IBNI approach.
- Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Group and the Bank record an allowance for the lifetime expected credit loss. Since this is a new concept compared to IAS 39, it will result in an increase in the allowance as most such assets are not considered to be credit-impaired under IAS 39.

  The Group and the Bank intend to evaluate increase in credit risk by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period.
- Stage 3 – Impaired loans: Financial assets will be recognized in Stage 3 when there is objective evidence that the loan is impaired. The Group and the Bank recognize the lifetime expected credit losses for these loans and in addition, the Group and the Bank accrue interest income on the amortised cost of the loan net of allowances. The criteria of the objective evidence are the same as under the current IAS 39 methodology, and accordingly, the Group and the Bank expect the population to be generally the same under both standards. The individual impairment allowance will continue to be calculated on the same basis as under IAS 39, and collateral values will be adjusted to reflect the amounts that can be expected to be realized.

The Group and the Bank will record impairment for FVOCI debt securities depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statements of financial position, which remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities considered to be 'low risk', the Group and the Bank intend to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 above. Such instruments will generally include trade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Forward-looking information

The Group and the Bank plan to use internal quantitative information, as well as opinion of internal economic experts, combined with published external information from government and private economic forecasting services.

3 Significant accounting policies, continued

Capital management

The Group and the Bank are in the process of evaluating how the new ECL model will impact the Group's and the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. The magnitude of the effect will depend, amongst other things, on whether the capital rules will be amended to reflect IFRS 9 or to include transition provision for the effect of IFRS 9.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group and the Bank plan to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

Timeline for implementing IFRS 9

The Group and the Bank expect to be in a position to provide quantitative information on the impact of the transition to IFRS 9 on its financial position and performance in 2017 financial statements. This will include the impact on its CET1 and key regulatory ratios.

(ii) IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group and the Bank have completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. This focused on a review of fees and commission income.

The Group and the Bank earn fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services:
- retail banking;
- corporate banking;
- investment banking;
- brokerage;
- asset management; and
- financial guarantees issued.

3 Significant accounting policies, continued

The initial review indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income.

(iii) IFRS 16 Leases – (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The Group and the Bank have started an initial assessment of the potential impact on their consolidated and separate financial statements. So far, the most significant impact identified is that the Group and the Bank will recognise new assets and liabilities for its operating leases of branches and office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The Group and the Bank have not yet decided whether it will use the optional exemptions. No significant impact is expected for the Group's and the Bank's finance leases. The Group and the Bank are also in the process of assessing the impact on its CET1 ratio, particularly in respect of ROU assets in leases where the Group is a lessee.

Transition
The Group and the Bank currently plan to apply IFRS 16 initially on 1 January 2019. As a lessee, the Group and the Bank can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group and the Bank have not yet determined which transition approach to apply. As a lessor, the Group and the Bank are not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease.

3 Significant accounting policies, continued

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted)

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group and the Bank expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group and the Bank.

(v) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while

- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group and the Bank do not expect that the amendments, when initially applied, will have material impact on the financial statements.

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted)

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Group and the Bank expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group and the Bank.

3 Significant accounting policies, continued

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively)

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group and the Bank expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group and the Bank because the Group and the Bank already measure future taxable profit in a manner consistent with the Amendments.

(viii) Amendments to IAS 40 Transfers of Investment Property

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 *Investment Property* to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group and the Bank do not expect that the amendments will have a material impact on the financial statements because the Group and the Bank transfer a property asset to, or from, investment property only when there is an actual change in use.

(ix) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018).

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group and the Bank do not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group and the Bank uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(x) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 *Disclosure of Interest in Other Entities* are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 *Investments in Associates and Joint Ventures* are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of the Group and the Bank.

4 Risk management

All aspects of the Bank's and the Group's risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2016.

The Group and the Bank have exposure to the following risks:

- market risk
- credit risk
- liquidity risks
- money laundering and terrorist financing risk

There have been no significant changes to sensitivities of financial assets and liabilities to financial risks other than presented in Note 39 compared to the quantitative information as presented in Bank's and the Group's financial statements for the year ended 31 December 2016, and therefore they are not disclosed in these condensed interim financial statements.

5 Capital management

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank and the Group defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by the Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 30 June 2017, the individual minimum level is 11.6%. The Bank was in compliance with the FCMC determined individual capital ratio during the six-month periods ended 30 June 2017 and 30 June 2016, as well as during the year ended 31 December 2016.

The Group's risk based capital adequacy ratio as at 30 June 2017 was 22.74% (31 December 2016: 22.36% and 30 June 2016: 22.3%).

The Bank's risk based capital adequacy ratio as at 30 June 2017 was 22.97% (31 December 2016: 22.61% and 30 June 2016 22.7%).

The Bank's and the Group's capital position is calculated in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Calculations are performed based on prudential consolidation group according to the Regulation No. 575/2013.

6 Use of estimates and judgments

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2016.

- Allowance for credit losses on loans and receivables;
- Determining fair value of financial instruments;
- Impairment of available for sale financial assets;
- Impairment of held to maturity financial instruments;
- Determining fair value of property;
- Impairment of assets shown under other assets;
- Impairment of investment in subsidiaries;
- Impairment of goodwill;
- Useful life of equipment;
- Deferred tax asset recoverability;
- Consolidation of investment funds;
- Acquisition of new subsidiaries.

7 Net interest income

	Six months ended 30 June			
	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Interest income				
Loans and receivables due from customers	34,700	29,261	41,480	36,367
Loans and receivables due from banks	2,432	2,430	1,883	1,871
Financial instruments at fair value through profit or loss	-	-	3	-
Available for sale assets	3,639	3,639	4,525	4,525
Held-to-maturity investments	4,831	4,810	3,921	3,904
Amounts receivable under reverse repurchase agreements	465	465	357	357
	46,067	**40,605**	**52,169**	**47,024**
Interest expense				
Current accounts and deposits due to customers	2,069	5,936	6,496	6,481
Deposits and balances due to financial institutions	5,951	1,582	1,266	1,251
Other interest expense	3,710	3,293	5,393	5,145
	11,730	**10,811**	**13,155**	**12,877**

Included within interest income from loans and receivables due from customers for the six months period ended 30 June 2017 is interest income of EUR 2,173 thousand (30 June 2016: EUR 3,896 thousand) relating to impaired loans issued by the Bank and by Group of EUR 2,173 thousand (30 June 2016: EUR 3,955 thousand).

8 Fee and commission income

	Six months ended 30 June			
	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
E-commerce	12,681	12,681	9,779	9,779
Money transfers	8,584	8,584	8,871	8,871
Commission income from payment cards	4,287	4,287	5,126	5,126
Commission from account servicing	3,959	3,959	3,990	3,990
Revenue from customer asset management and brokerage commissions	3,351	2,881	2,796	2,581
Commission from documentary operations	362	362	417	417
Cash withdrawals	72	72	99	99
Remote system fee	60	60	75	75
Other	2,093	2,149	2,346	2,367
	35,449	**35,035**	**33,499**	**33,305**

9 Fee and commission expense

	Six months ended 30 June			
	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
E-commerce	10,786	10,786	5,842	5,842
Payment card expenses	4,470	4,470	4,137	4,137
On correspondent accounts	1,063	1,063	967	967
Agent commissions	757	603	1,071	932
Brokerage fees	520	474	484	443
Cash withdrawal fees	6	6	10	10
Other	791	837	689	813
	18,393	**18,239**	**13,200**	**13,144**

10 Net realised gain on available-for-sale assets

	Six months ended 30 June			
	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Equity instruments	(33)	-	30,958	30,958
Debt instruments	54	54	179	179
	21	**54**	**31,137**	**31,137**

During 2016, Visa Inc. completed the purchase of Visa Europe from all European participating banks. As a result of this sale the Bank realized a profit of EUR 24.76 m from the cash settlement and EUR 2 million from deferred payment.

11 Other income/(expense)

	Six months ended 30 June			
	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Rental income from operating leases	2,468	370	1,903	314
Penalties received	509	411	463	382
Gain/(loss) from sale of investment property	39	-	42	(7)
Gain/(loss) from sale of property and equipment	248	-	(4)	-
Loss from revaluation of investment property (Note 24)	(349)	-	(1,524)	-
Gain from disposal of subsidiary shares	-	-	5	-
Negative goodwill write-off	-	-	98	-
(Loss)/Recovery of assets written off	10	-	(134)	8
Loss from sale of subsidiary (Note 40)	(1,513)	(760)	-	-
Dividends received	705	2,924	92	959
Income from steel production	2,091	-	1,071	-
Income from electricity and heating manufacture	985	-	984	-
Other	1,813	587	877	498
	7,006	**3,532**	**3,873**	**2,154**

12 Impairment losses

	Six months ended 30 June			
	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Impairment losses				
Loans and receivables due from customers	(2,275)	(1,471)	(16,424)	(16,102)
Available-for-sale financial assets	-	(1,861)	-	(1,494)
Other financial assets	-	-	(632)	(685)
Other non-financial assets	(746)	(501)	(15)	(12)
	(3,021)	**(3,833)**	**(17,071)**	**(18,293)**
Reversals of impairment losses				
Loans and receivables due from customers	856	419	2,561	2,409
Other non-financial assets	3	3	2	2
	859	**422**	**2,563**	**2,411**
Net impairment losses	**(2,162)**	**(3,411)**	**(14,508)**	**(15,882)**

13 General administrative expenses

	Six months ended 30 June			
	2017	**2017**	**2016**	**2016**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**
	Group	**Bank**	**Group**	**Bank**
Employee compensation	11,926	8,973	12,042	9,422
Payroll related taxes on employee compensation	3,461	2,748	2,641	2,132
Provision for bonus and payroll related taxes	1,777	1,812	2,120	2,120
Taxes other than on corporate income and payroll	3,056	2,344	2,953	2,407
Provisions for possible obligations	20,000	20,000	-	-
Professional services	277	157	2,501	2,447
Repairs and maintenance	2,822	416	1,940	393
Depreciation and amortization	2,248	1,341	1,924	917
IT related costs	935	932	1,094	1,094
Rent	1,115	1,801	1,006	1,819
Salaries to Board of Directors and Council	571	353	701	435
Representative offices	739	602	911	675
Communications and information services	643	557	646	591
Travel expenses	654	577	552	498
Advertising and marketing	514	211	545	199
Charity and sponsorship	973	717	531	307
Representation	61	60	412	76
Credit card service	134	134	171	171
Insurance	156	116	171	138
Employee health insurance	140	129	136	122
Subscription of information	82	82	98	75
Audit services	237	70	81	71
Security	59	59	46	52
Office supplies (stationery)	78	35	41	31
Other	3,125	1,912	2,594	2,145
	55,783	**46,138**	**35,857**	**28,337**

14 Income tax expense

(a) Income tax expense recognized in profit and loss

	Six months ended 30 June			
	2017 '000 EUR Group	2017 '000 EUR Bank	2016 '000 EUR Group	2016 '000 EUR Bank
Current tax expense	4,190	3,813	3,203	2,750
Deferred tax	65	33	(371)	101
Total income tax expense in the profit and loss	**4,255**	**3,846**	**2,832**	**2,851**

The tax rate applicable in countries in which group entities operate:	**2017**	**2016**
Latvia	15.00%	15.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%
Azerbaijan	20.00%	20.00%

(b) Reconciliation of effective tax rate:

The Group	**30 June 2017 '000 EUR**	**%**	**30 June 2016 '000 EUR**	**%**
Profit before tax	10,825		56,062	
Income tax at the applicable tax rate	1,624	15.00%	7,192	12.83%
Effect of different tax rate in other countries	8	0.07%	25	0.04%
Tax relief on donations	-	-	(254)	(0.45%)
Non-deductible expenses	3,613	33.38%	841	1.50%
Tax exempt income	(1,718)	(15.87%)	(4,945)	(8.82%)
Tax paid in foreign countries	602	5.56%	(27)	(0.05%)
Under/(over) provided in prior years	126	1.16%	-	-
	4,255	**39.3%**	**2,832**	**5.05%**

The Bank	**30 June 2017 '000 EUR**	**%**	**30 June 2016 '000 EUR**	**%**
Profit before tax	11,564		54,145	
Income tax at the applicable tax rate	1,735	15.00%	8,122	15.00%
Non-deductible expenses	3,697	31.97%	489	0.90%
Tax exempt income	(1,718)	(14.86%)	(5,485)	(10.13%)
Tax relief on donations	(558)	(4.83%)	(248)	(0.46%)
Tax paid in foreign countries	602	5.21%	(27)	(0.05%)
Under/(over) provided in prior years	88	0.76%	-	-
	3,846	**33.25%**	**2,851**	**5.26%**

14 Income tax expense, continued

(c) Income tax recognized in other comprehensive income and directly in equity

Group	**30 June 2017 ’000 EUR**		**30 June 2016 ’000 EUR**	
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Change in fair value reserve	967	(145)	3,462	(519)
Change in fair value reserve on which deferred tax asset is not recognized	365	-	(24,167)	-
Total income tax recognised in other comprehensive income	**1,332**	**(145)**	**(20,705)**	**(519)**

Bank	**30 June 2017 ’000 EUR**		**30 June 2016 ’000 EUR**	
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Change in fair value reserve	1,366	(205)	3,462	(519)
Change in fair value reserve on which deferred tax asset is not recognized	162	-	(23,613)	-
Total income tax recognised in other comprehensive income	**1,528**	**(205)**	**(20,151)**	**(519)**

15 Cash and balances with the central bank

Cash and balances with central bank comprised of the following items:

	30 June 2017 ’000 EUR Group	**30 June 2017 ’000 EUR Bank**	**31 Dec 2016 ’000 EUR Group**	**31 Dec 2016 ’000 EUR Bank**
Cash	2,542	2,488	2,850	2,809
Balances due from the Bank of Latvia	774,028	774,028	834,111	834,111
Total	**776,570**	**776,516**	**836,961**	**836,920**

Cash and cash equivalents consist of the following:

	30 June 2017 ’000 EUR Group	**30 June 2017 ’000 EUR Bank**	**30 June 2016 ’000 EUR Group**	**30 June 2016 ’000 EUR Bank**
Cash	2,542	2,488	3,120	3,079
Balances due from the Bank of Latvia	774,028	774,028	715,767	715,767
Demand loans and receivables due from banks	529,859	529,294	549,194	548,607
Demand deposits and balances due to banks	(29,343)	(29,343)	(38,896)	(38,896)
Total	**1,277,086**	**1,276,467**	**1,229,185**	**1,228,557**

16 Financial instruments at fair value through profit or loss

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Bonds				
- with rating from AAA to A	1,424	-	2,081	-
- with rating from BBB+ to BBB-	12,591	-	12,687	-
- non-investment grade	273	-	194	-
- not rated	244	-	437	-
Equity investments	469	184	529	209
Derivative financial instruments	629	629	1,124	1,124
Financial assets at fair value through profit or loss	**15,630**	**813**	**17,052**	**1,333**
Derivative financial instruments	(144)	(144)	(442)	(442)
Financial liabilities at fair value through profit or loss	**(144)**	**(144)**	**(442)**	**(442)**

The Bank and the Group classify trading and derivative financial instruments and trading portfolio under this category.

Derivative financial assets and liabilities

The Group	**30 June 2017 '000 EUR**		**31 Dec 2016 '000 EUR**	
	Carrying value	**Notional amount**	**Carrying value**	**Notional amount**
Assets				
Option premium	250	n/a	276	n/a
Currency swap contracts	379	5,128	848	6,745
Total derivative financial assets	**629**		**1,124**	
Liabilities				
Currency swap contracts	144	2,172	442	6,823
Total derivative liabilities	**144**		**442**	

16 Financial instruments at fair value through profit or loss, continued

The Bank	30 June 2017 ’000 EUR		31 Dec 2016 ’000 EUR	
	Carrying value	**Notional amount**	**Carrying value**	**Notional amount**
Assets				
Option premium	250	n/a	276	n/a
Currency swap contracts	379	5,128	848	6,745
Total derivative financial assets	**629**		**1,124**	
Liabilities				
Currency swap contracts	144	2,172	442	6,823
Total derivative liabilities	**144**		**442**	

17 Loans and receivables due from banks

	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Demand accounts				
Latvian commercial banks	2,479	2,186	2,554	2,302
OECD banks	419,925	419,925	460,932	460,923
Other non-OECD banks	107,455	107,183	39,492	39,050
Total Demand accounts	**529,859**	**529,294**	**502,978**	**502,275**
Deposit accounts				
OECD banks	480	480	5,195	5,195
Other non-OECD banks	-	-	14,251	14,251
Total loans and deposits	**480**	**480**	**19,446**	**19,446**
	530,339	**529,774**	**522,424**	**521,721**

Concentration of placements with banks

As at 30 June 2017 the Bank and the Group had balances with five banks (four as at 31 December 2016), which exceeded 10% of the total loans and receivables due from banks. The gross value of these balances was EUR 322,800 thousand as of 30 June 2017 (31 December 2016: EUR 279,220 thousand).

18 Loans and receivables due from customers

	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Companies				
Finance leases	18,522	-	20,567	-
Loans	835,894	987,138	912,413	1,054,381
Individuals				
Finance leases	45,498	-	36,240	-
Loans	159,169	159,161	170,031	170,031
Specific impairment allowance	(83,385)	(98,341)	(92,562)	(107,539)
Collective impairment allowance	(1,617)	-	(1,769)	-
Net Loans and receivables from customers	**974,081**	**1,047,958**	**1,044,920**	**1,116,873**

(a) Finance leases

Loans and receivables from customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Gross investment in finance leases, receivable				
Less than one year	25,261	-	23,758	-
Between one and five years	44,019	-	38,201	-
Total gross investment in finance leases	69,280	-	61,959	-
Unearned finance income	(5,260)	-	(5,152)	-
Net investment in finance lease before allowance	64,020	-	56,807	-
Impairment allowance	(1,669)	-	(1,799)	-
Net investment in finance lease	**62,351**	**-**	**55,008**	**-**

	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
The net investment in finance leases comprises:				
Less than one year	21,153	-	20,048	-
Between one and five years	41,198	-	34,960	-
Net investment in finance lease	**62,351**	**-**	**55,008**	**-**

18 Loans and receivables due from customers, continued

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

The Group As at 30 June 2017	**Total EUR'000**	**Of which not past due on the reporting date**	**Of which past due by the following terms** Less than 30 days	31-90 days	91-180 days	More than 180 days	**Net carrying value of overdue loans**
Net carrying amount	**974,081**	721,278	52,421	56,122	20,040	124,220	252,803
Out of which impaired	**191,476**	36,692	18,325	21,880	8,864	105,715	154,784
Assessed fair value of collateral	**5,522,499**	3,105,733	197,080	284,219	68,261	1,867,206	2,416,766
As at 31 Dec 2016							
Net carrying amount	**1,044,920**	824,440	44,522	21,240	64,047	90,671	220,480
Out of which impaired	**199,066**	88,606	1,319	1,182	36,151	71,808	110,460
Assessed fair value of collateral	**4,125,655**	3,831,076	64,841	23,333	100,727	105,678	294,579

The Bank As at 30 June 2017	**Total EUR'000**	**Of which not past due on the reporting date**	**Of which past due by the following terms** Less than 30 days	31-90 days	91-180 days	More than 180 days	**Net carrying value of overdue loans**
Net carrying amount	**1,047,958**	795,418	52,690	55,732	19,899	124,219	**252,540**
Out of which impaired	**203,281**	46,892	19,970	21,849	8,855	105,715	**156,389**
Assessed fair value of collateral	**5,625,200**	3,208,706	197,341	283,829	68,120	1,867,204	**2,416,494**
As at 31 Dec 2016							
Net carrying amount	**1,116,873**	896,190	45,093	20,989	63,965	90,636	220,683
Out of which impaired	**210,982**	98,946	2,966	1,157	36,140	71,773	112,036
Assessed fair value of collateral	**6,148,704**	3,927,762	69,590	113, 640	469,074	1,568,638	**2,220,942**

18 Loans and receivables due from customers, continued

(ii) Analysis of loan by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral.

The Group

EUR'000	30 June 2017	% of loan portfolio	31 December 2016	% of loan portfolio
Commercial buildings	349,802	35.91	383,461	36.70
Commercial assets pledge	281,355	28.88	317,942	30.43
Traded securities	87,429	8.98	91,311	8.74
Mortgage on residential properties	62,355	6.40	68,438	6.55
Land mortgage	52,329	5.37	58,169	5.57
Without collateral	50,794	5.21	45,523	4.36
Guarantee	29,774	3.06	27,405	2.62
Non-traded securities	819	0.08	886	0.08
Deposit	759	0.08	16,139	1.54
Other	58,665	6.03	35,646	3.41
Total	**974,081**	**100.00**	**1,044,920**	**100.00**

The Bank

EUR'000	30 June 2017	% of loan portfolio	31 December 2016	% of loan portfolio
Commercial buildings	391,592	37.37	424,899	38.04
Commercial assets pledge	318,966	30.44	351,846	31.50
Traded securities	87,429	8.34	91,311	8.18
Mortgage on residential properties	62,562	5.97	68,709	6.15
Without collateral	57,503	5.49	51,569	4.62
Land mortgage	57,202	5.46	63,019	5.64
Guarantee	29,774	2.84	27,405	2.45
Non-traded securities	819	0.08	886	0.08
Deposit	759	0.07	16,138	1.44
Other	41,352	3.94	21,091	1.90
Total	**1,047,958**	**100.00**	**1,116,873**	**100.00**

The amounts shown in the table above represent the carrying value of the loans, and not the fair value of the collateral.

18 Loans and receivables due from customers, continued

(iii) Impaired loans

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Impaired loans gross	274,862	301,622	291,628	318,521
Specific impairment allowance	(83,385)	(98,341)	(92,562)	(107,539)
Net Loans and receivables from customers	**191,477**	**203,281**	**199,066**	**210,982**
Fair value of collateral related to impaired loans	**2,228,496**	**2,243,783**	**2,300,367**	**2,315,691**

When reviewing loans the Bank and the Group set the following categories for individual loans to assess their credit risk:

The Group

	30 June 2017 '000 EUR Gross	Specific impairment allowance	Collective impairment allowance	31 Dec 2016 '000 EUR Gross	Specific impairment allowance	Collective impairment allowance
Standard	827,128	(1,562)	(1,049)	883,234	(1,189)	(935)
Watch	104,750	(18,939)	(32)	122,274	(22,439)	(29)
Substandard	86,094	(30,274)	(112)	87,457	(30,945)	(97)
Doubtful	35,196	(26,985)	(134)	33,911	(26,214)	(107)
Lost	5,915	(5,625)	(290)	12,375	(11,775)	(601)
Total	**1,059,083**	**(83,385)**	**(1,617)**	**1,139,251**	**(92,562)**	**(1,769)**

The Bank

	30 June 2017 '000 EUR Gross	Specific impairment allowance	31 Dec 2016 '000 EUR Gross	Specific impairment allowance
Standard	890,629	(1,746)	946,458	(1,545)
Watch	107,363	(19,232)	125,061	(22,747)
Substandard	89,594	(31,500)	89,288	(31,999)
Doubtful	54,339	(41,489)	53,069	(40,712)
Lost	4,374	(4,374)	10,536	(10,536)
Total	**1,146,299**	**(98,341)**	**1,224,412**	**(107,539)**

18 Loans and receivables due from customers, continued

(iv) Movements in the impairment allowance

Movements in the loan impairment allowance for the 30 June 2017 and year ended 31 December 2016 are as follows:

EUR'000	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Allowance for impairment				
Balance at 1 January	94,331	107,539	95,758	91,648
Charge for the period:				
Specific impairment allowance	1,460	1,471	43,692	44,260
Collective impairment allowance	815	-	506	-
Transfer from Other assets impairment	-	-	(659)	(659)
Reversal of specific impairment allowance loss				
Specific impairment allowance	(462)	(419)	(12,017)	(11,431)
Collective impairment allowance	(394)	-	-	-
Effect of foreign currency translation	(4,633)	(4,633)	1,987	2,020
Write offs	(6,115)	(5,617)	(34,936)	(18,299)
Balance at the end of period	**85,002**	**98,341**	**94,331**	**107,539**

(v) Restructured loans

As at 30 June 2017, the Group held restructured loans of EUR 159,741 thousand (31 December 2016: EUR 237,973 thousand) and the Bank held restructured loans of EUR 170,082 thousand (31 December 2016: EUR 251,642 thousand). Main forms of restructuring were the reduction of the interest rate, and postponing of interest payments or principal amounts.

18 Loans and receivables due from customers, continued

(c) Industry analysis of the loan portfolio

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Financial services	231,289	292,643	238,098	289,096
Real estate management	229,086	296,038	232,552	299,795
Individuals	151,594	151,594	160,424	160,424
Transport and communication	123,474	126,264	150,998	153,788
Investments in finance lease	62,351	-	55,008	-
Wholesale and retailing	60,382	60,382	71,717	71,717
Construction	31,951	31,951	39,611	39,611
Manufacturing	12,762	13,334	22,819	23,498
Food industry	2,906	2,906	6,351	6,351
Tourism	2,882	4,530	3,026	4,674
Other	65,404	68,316	64,316	67,919
	974,081	**1,047,958**	**1,044,920**	**1,116,873**

(d) Geographical analysis of the loan portfolio

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Latvia	199,482	267,535	201,044	269,632
Other OECD countries	225,598	225,562	195,347	195,311
Non-OECD countries	549,001	554,861	648,529	651,930
	974,081	**1,047,958**	**1,044,920**	**1,116,873**

(e) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity. As at 31 December 2016 and 30 June 2017 the Bank and the Group were in compliance with this requirement.

19 Available-for-sale assets

	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Bonds				
- with rating from AAA to A	180,471	180,471	246,171	246,171
- with rating from BBB+ to BBB-	144,991	144,991	148,176	148,176
- non-investment grade	56,156	56,156	67,647	67,647
Rietumu Asset Management Funds				
RB Opportunity Fund I	-	26,805	-	28,667
Cash Reserve Fund	-	4,441	-	4,790
Fixed Income High Yield Fund	-	4,604	-	4,879
Fixed Income Investment Grade Fund	-	4,560	-	4,832
Global Equity Fund	-	389	-	415
Other equity instruments	854	694	939	750
VISA Inc preference shares	5,155	5,155	4,651	4,651
Available for sale assets	**387,627**	**428,266**	**467,584**	**510,978**
Acquisition cost	385,640	432,416	466,929	514,794
Revaluation	3,635	7,239	2,303	5,711
Impairment allowance	(1,648)	(11,389)	(1,648)	(9,527)
Available for sale assets	**387,627**	**428,266**	**467,584**	**510,978**
Of which pledged under sale and repurchase agreements with Central Bank	152,663	152,663	133,548	133,548

Analysis of movements in the impairment allowance

	Six months ended		12 months ended	
	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Balance at the beginning of the period	1,648	9,527	1,648	5,924
Charge for the period	-	1,861	-	3,603
Currency revaluation	-	1	-	-
Balance at the end of the period	**1,648**	**11,389**	**1,648**	**9,527**

20 Held-to-maturity investments

	30 Jun 2017 '000 EUR Group	30 Jun 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Debt and other fixed-income instruments				
- Government and municipal bonds				
Latvia	2,739	2,739	1,904	1,904
Russia	12,554	12,554	13,589	13,589
Other	1,759	1,759	-	-
Total government and municipal bonds	**17,052**	**17,052**	**15,493**	**15,493**
- Corporate bonds				
Russia	40,766	40,766	48,071	48,071
USA	101,132	98,919	108,276	105,243
Other European Union countries	39,545	38,817	39,663	38,970
Other non-European Union countries	97,477	97,476	108,071	108,071
Total corporate bonds	**278,920**	**275,978**	**304,081**	**300,355**
	295,972	**293,030**	**319,574**	**315,848**
Of which pledged under sale and repurchase agreements with Central Bank	891	891	977	977

21 Investments in subsidiaries

The subsidiaries of the Bank are as follows:

	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Bank
Incorporated in		
- Latvia	27,134	28,196
- Cyprus	10,956	10,956
- Belarus	2,362	2,362
- Russia	121	121
- Azerbaijan	4	4
Total gross investments	**40,577**	**41,639**
Impairment allowance	(13,258)	(13,258)
Net Investments in subsidiaries	**27, 319**	**28,381**

21 Investments in subsidiaries, continued

Movements in the impairment allowances

	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Bank
Balance at the beginning of the period	13,258	11,618
Charge for the period	-	1,640
Balance at the end of period	**13,258**	**13,258**

On June 19, 2017 the Bank sold subsidiary "Rietumu IT Services" Ltd and on March 17, 2017 – "Rietumu Transport and Logistic" Ltd.

22 Property and equipment

The Group

'000 EUR Cost/Revalued amount	Land and buildings	Construction in progress	Vehicles	Office equipment and machinery	Advances	Total
At 1 January 2017	**38,864**	**2,236**	**2,917**	**23,244**	**114**	**67,375**
Additions	79	161	212	668	26	**1,146**
Disposals	-	-	(97)	(1,169)	-	**(1,266)**
Transfers from advances	-	-	88	-	(88)	**-**
Sale of subsidiary	-	-	-	(343)	-	**(343)**
Effect of foreign currency translation	41	-	-	-	-	**41**
At 30 June 2017	**38,984**	**2,397**	**3,120**	**22,400**	**52**	**66,953**
Depreciation and impairment losses						
At 1 January 2017	**5,248**	**-**	**1,568**	**15,071**	**-**	**21,887**
Depreciation charge	341	-	236	769	-	**1,346**
Disposals depreciation	-	-	(83)	(1,127)	-	**(1,210)**
Sale of subsidiary	-	-	-	(72)	-	**(72)**
At 30 June 2017	**5,589**	**-**	**1,721**	**14,641**	**-**	**21,951**
Net carrying amount						
At 31 December 2016	**33,616**	**2,236**	**1,349**	**8,173**	**114**	**45,488**
At 30 June 2017	**33,395**	**2,397**	**1,399**	**7,759**	**52**	**45,002**

22 Property and equipment, continued

The Group, continued

'000 EUR **Cost/Revalued amount**	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2016	**38,480**	**1,999**	**2,594**	**23,419**	**64**	**66,556**
Additions	545	237	573	838	139	**2,332**
Disposals	-	-	(264)	(966)	(26)	**(1,256)**
Transfer from other assets	-	-	16	47	(63)	-
Sale of subsidiary	-	-	-	(6)	-	**(6)**
Transfer (investment in share capital)	-	-	-	(167)	-	**(167)**
Revaluation	-	-	-	44	-	**44**
Acquisition of subsidiary	-	-	-	41	-	**41**
Effect of foreign currency translation	(161)	-	(2)	(6)	-	**(169)**
At 31 December 2016	**38,864**	**2,236**	**2,917**	**23,244**	**114**	**67,375**
Depreciation						
At 1 January 2016	**4,478**	**-**	**1,400**	**14,186**	**-**	**20,064**
Depreciation charge	781	-	424	1,865	-	**3,070**
Disposals	-	-	(256)	(972)	-	**(1,228)**
Sale of subsidiary	-	-	-	(4)	-	**(4)**
Effect of foreign currency translation	(11)	-	-	(4)	-	**(15)**
At 31 December 2016	**5,248**	**-**	**1,568**	**15,071**	**-**	**21,887**
Net carrying amount						
At 31 December 2015	**34,002**	**1,999**	**1,194**	**9,233**	**64**	**46,492**
At 31 December 2016	**33,616**	**2,236**	**1,349**	**8,173**	**114**	**45,488**

22 Property and equipment, continued

The Bank

'000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2017	**2,211**	**2,803**	**13,218**	**27**	**18,259**
Additions	161	131	377	26	**695**
Disposals	-	(83)	(608)	-	**(691)**
At 30 June 2017	**2,372**	**2,851**	**12,987**	**53**	**18,263**
Depreciation and impairment losses					
At 1 January 2017	**-**	**1,500**	**8,816**	**-**	**10,316**
Depreciation charge	-	203	385	**-**	**588**
Disposals	-	(83)	(604)	**-**	**(687)**
At 30 June 2017	**-**	**1,620**	**8,597**	**-**	**10,217**
Net carrying amount					
At 31 December 2016	**2,211**	**1,303**	**4,402**	**27**	**7,943**
At 30 June 2017	**2,372**	**1,231**	**4,390**	**53**	**8,046**

'000 EUR	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2016	**1,973**	**2,542**	**14,162**	**64**	**18,741**
Additions	238	474	370	26	**1,108**
Disposals	-	(229)	(927)	**-**	**(1,156)**
Transfer from advances	-	16	47	(63)	**-**
Transfers (investment in share capital)	-	-	(478)	-	**(478)**
Revaluation	-	-	44	-	**44**
At 31 December 2016	**2,211**	**2,803**	**13,218**	**27**	**18,259**
Depreciation and impairment losses					
At 1 January 2016	**-**	**1,358**	**9,233**	**-**	**10,591**
Depreciation charge	-	371	809	**-**	**1,180**
Disposals	-	(229)	(915)	**-**	**(1,144)**
Transfers (investment in share capital)	-	-	(311)	**-**	**(311)**
At 31 December 2016	**-**	**1,500**	**8,816**	**-**	**10,316**
Net carrying amount					
At 31 December 2015	**1,973**	**1,184**	**4,929**	**64**	**8,150**
At 31 December 2016	**2,211**	**1,303**	**4,402**	**27**	**7,943**

23 Intangible assets

The Group

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2017	**1,136**	**13,210**	**1,971**	**925**	**17,242**
Additions	-	79	-	308	**387**
Disposals	-	(1)	-	-	**(1)**
Sale of subsidiary	-	(902)	-	(97)	**(999)**
At 30 June 2017	**1,136**	**12,386**	**1,971**	**1,136**	**16,629**
Amortisation and impairment losses					
At 1 January 2017	**-**	**11,649**	**991**	**-**	**12,640**
Amortisation charge	-	841	61	-	**902**
Sale of subsidiary	-	(164)	-	-	**(164)**
At 30 June 2017	**-**	**12,326**	**1,052**	**-**	**13,378**
Net carrying amount					
At 31 December 2016	**1,136**	**1,561**	**980**	**925**	**4,602**
At 30 June 2017	**1,136**	**60**	**919**	**1,136**	**3,251**

’000 EUR	Goodwill	Software	Other	Advances	Total
Cost amount					
At 1 January 2016	**1,069**	**12,229**	**1,984**	**504**	**15,786**
Additions	699	925	3	488	**2,115**
Disposals	-	(2)	(16)	-	**(18)**
Goodwill write off	(699)	-	-	-	**(699)**
Transfer from advances	67	-	-	(67)	-
FX translation effect	-	58	-	-	**58**
At 31 December 2016	**1,136**	**13,210**	**1,971**	**925**	**17,242**
Amortisation and impairment losses					
At 1 January 2016	**-**	**10,909**	**872**	**-**	**11,781**
Amortisation charge	-	742	135	-	**877**
Disposals	-	(2)	(16)	-	**(18)**
Impairment of goodwill write off	(699)	-	-	-	**(699)**
Impairment loss	699	-	-	-	**699**
At 31 December 2016	**-**	**11,649**	**991**	**-**	**12,640**
Net carrying amount					
At 31 December 2015	**1,069**	**1,320**	**1,112**	**504**	**4,005**
At 31 December 2016	**1,136**	**1,561**	**980**	**925**	**4,602**

23 Intangible assets, continued

The Bank

'000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2017	1,069	12,599	43	215	**13,926**
Additions	-	67	-	211	**278**
At 30 June 2017	**1,069**	**12,666**	**43**	**426**	**14,204**
Amortisation and impairment losses					
At 1 January 2017	-	11,079	25	-	**11,104**
Amortisation charge	-	751	2	**-**	**753**
At 30 June 2017	**-**	**11,830**	**27**	**-**	**11,857**
Net carrying amount					
At 31 December 2016	**1,069**	**1,520**	**18**	**215**	**2,822**
At 30 June 2017	**1,069**	**836**	**16**	**426**	**2,347**

'000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2016	**1,069**	**12,216**	**42**	**504**	**13,831**
Additions	-	924	3	488	**1,415**
Disposals	-	(1)	(2)	**-**	**(3)**
Reclassification	-	(598)	-	(777)	**(1,375)**
Revaluation	-	58	-	-	**58**
At 31 December 2016	**1,069**	**12,599**	**43**	**215**	**13,926**
Amortisation and impairment losses					
At 1 January 2016	**-**	**10,898**	**23**	**-**	**10,921**
Amortisation charge	-	668	2	**-**	**670**
Disposals	-	(2)	-	**-**	**(2)**
Transfers (investment in share capital)	-	(485)	-	**-**	**(485)**
At 31 December 2016	**-**	**11,079**	**25**	**-**	**11,104**
Net carrying amount					
At 31 December 2015	**1,069**	**1,318**	**19**	**504**	**2,910**
At 31 December 2016	**1,069**	**1,520**	**18**	**215**	**2,822**

Goodwill of EUR 1,069 thousand (2016: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

24 Investment property

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Balance at 1 January	91,299	10,687	82,968	8,447
Revaluation of property	(349)	-	(6,124)	217
Transfers from other assets	143	-	1,822	1,822
Purchase of subsidiary	-	-	10,259	-
Additions	396	84	3,807	273
Disposals	(1,265)	(131)	(1,189)	(72)
Currency revaluation	7	-	(197)	-
Written off	4	-	(47)	-
Balance at the end of reporting period	**90,235**	**10,640**	**91,299**	**10,687**

Investment property comprises residential properties and other commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties. The Group's investment property comprises of a food processing terminal, residential properties, plots of land, and hotels.

In 2016 the Group acquired investment property in amount of EUR 10,259 thousand through purchase of subsidiaries KI-135 SIA, Ekoagro SIA and Penrox Petroleum SIA.

25 Other assets

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Other financial assets				
Cash in transit	20,233	13,984	9,813	7,061
Other	25	-	24	-
Other non-financial assets				
Collateral assumed on non-performing loans	4,569	4,476	4,939	4,494
Prepayments	1,647	774	1,574	411
Recoverable VAT	2,906	170	1,568	44
Tax other than CIT prepayments	1,104	1,033	68	-
Gold	456	456	-	-
Other	7,467	2,824	9,085	3,896
Impairment allowance	(3,962)	(3,441)	(3,274)	(2,942)
	34,445	**20,276**	**23,797**	**12,964**

Analysis of movements in the value of collateral assumed on non- performing loans

	Six months ended		12 months ended	
	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Balance at the beginning of the period	**4,939**	**4,494**	**6,812**	**6,812**
Addition	-	-	445	-
Sale of collateral completed	(370)	(18)	-	-
Reclassified to investment property	-	-	(1,822)	(1,822)
Reclassified to Guarantee receivable	-	-	(496)	(496)
Balance at the end of the period	**4,569**	**4,476**	**4,939**	**4,494**

Analysis of movements in the impairment allowance

	Six months ended		12 months ended	
	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Balance at the beginning of the period	**3,274**	**2,942**	**4,142**	**3,805**
Charge for the period	746	501	62	63
Recovery	(3)	(3)	(214)	(216)
Acquisition of subsidiaries	-	-	1	-
Transfers to loans and advances	-	-	(659)	(659)
Written off	(60)	(1)	(8)	(3)
Currency revaluation	5	2	(50)	(48)
Balance at the end of the period	**3,962**	**3,441**	**3,274**	**2,942**

26 Deposits and balances due to banks

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Vostro accounts	29,343	29,343	33,111	33,111
Term deposits	803	560	985	846
	30,146	**29,903**	**34,096**	**33,957**

Concentration of deposits and balances from banks

As at 30 June 2017 the Bank and the Group had balances with three (two as at 31 December 2016) credit institutions, which exceeded 10% of the total deposits and balances from banks. The gross value of these balances as of 30 June 2017 was EUR 10,013 thousand, EUR 6,722 thousand and EUR 4,172 thousand accordingly. The gross value of these balances as of 31 December 2016 was EUR 14,804 thousand and EUR 4,149 thousand accordingly.

27 Current accounts and deposits due to customers

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Private companies				
- current accounts	1,664,403	1,687,252	1,840,334	1,866,633
- term deposits	112,150	112,586	143,086	143,568
Total private companies	**1,776,553**	**1,799,838**	**1,983,420**	**2,010,201**
Government				
- current accounts	51	51	42	42
- term deposits	35	-	39	-
Total government	**86**	**51**	**81**	**42**
Private individuals				
- current accounts	528,674	528,674	558,428	558,428
- term deposits	204,524	202,308	200,797	199,068
Total private individuals	**733,198**	**730,982**	**759,225**	**757,496**
Total current accounts and deposits due to customers	**2,509,837**	**2,530,871**	**2,742,726**	**2,767,739**

(a) Blocked accounts

As of 30 June 2017 and 31 December 2016, the Bank maintained customer deposit balances of EUR 4,879 thousand and EUR 18,013 thousand, respectively which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(b) Concentrations of current accounts and customer deposits

As of 30 June 2017 and 31 December 2016, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

28 Issued debt securities

Subordinated bonds and ordinary bonds have a fixed term at their origination. Subordinated bonds are repayable before maturity only on winding up or bankruptcy of the Bank. Subordinated bonds rank before shareholders' claims. All bonds are listed on the Nasdaq OMX Riga exchange with the following maturities and carrying amounts:

ISIN	Currency	Number of initially issued securities	Par value	Date of issue	Date of maturity	Discount /coupon rate, %	Group 30/06/2017	Bank 30/06/2017	Group 31/12/2016	Bank 31/12/2016
Subordinated bonds										
LV0000800993	EUR	200	50 000	07.09.2012	07.09.2019	7.0	10,222	10,222	10,222	10,222
LV0000801009	USD	80	75 000	07.09.2012	07.09.2019	7.0	5,374	5,374	5,818	5,818
LV0000801025	USD	67	75 000	14.09.2012	14.09.2019	7.0	4,495	4,495	4,866	4,866
Subordinated bonds total							**20,091**	**20,091**	**20,906**	**20,906**
Ordinary bonds										
LV0000801918	USD	280	75 000	10.12.2015	10.12.2017	2.25	18,426	18,426	19,948	19,948
LV0000801900	EUR	200	50 000	10.12.2015	10.12.2017	2.00	9,944	10,011	9,912	10,012
LV0000801975	USD	100	75 000	22.12.2015	22.12.2017	2.25	6,576	6,576	7,043	7,119
Ordinary bonds total							**34,946**	**35,013**	**36,903**	**37,079**
Issued debt securities total ('000 EUR)							**55,037**	**55,104**	**57,809**	**57,985**

There were no defaults on interest or other breaches with respect to issued debt securities.

29 Other liabilities and accruals

	30 June 2017 '000 EUR Group	30 June 2017 '000 EUR Bank	31 Dec 2016 '000 EUR Group	31 Dec 2016 '000 EUR Bank
Other financial liabilities				
Cash in transit	35	-	49	-
Accruals	1,182	1,182	888	882
Other non-financial liabilities				
Management bonus accrual	5,073	5,069	5,803	5,803
Deferred income	3,373	1,126	1,715	1,154
Annual leave accrual	2,464	2,041	2,147	1,860
Deposits guarantee fund	678	678	1,169	450
VAT payable	22	-	68	-
Estimated liability to FKTK	430	430	237	200
Prepayments	1,478	38	1,062	20
Dividends payable	24	6	47	6
Accounts payable to suppliers and other	7,973	3,107	8,126	2,627
	22,732	**13,677**	**21,311**	**13,002**

30 Share capital and reserves

The share capital as of 30 June 2017 and 31 December 2016 consists of:

	30 June 2017 '000 EUR	Number of shares	31 Dec 2016 '000 EUR	Number of shares
Ordinary shares	142,287	101,633,700	142,287	101,633,700
Preference shares	26,629	19,020,308	26,629	19,020,308
Issued capital	**168,916**		**168,916**	
Share premium	**52,543**		**52,543**	

The structure of shareholders holding ordinary shares did not change since 31 December 2016. The nominal value of one ordinary and preference share is EUR 1.40.

31 Commitments and guarantees

	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Contracted amount				
Loan and credit line commitments	1,901	2,965	4,063	8,407
Credit card commitments	5,246	5,247	6,210	6,216
Undrawn overdraft facilities	4,479	9,451	14,035	14,035
Guarantees and letters of credit	8,136	8,136	7,521	7,521
Total	**19,762**	**25,799**	**31,829**	**36,179**

32 Litigations

In the ordinary course of business, the Bank is subject to legal actions and complaints. As at 30 June 2017 there were 13 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is EUR 239,761 thousand (31 December 2016: EUR 3,329 thousand). No provisions were recognised as at 30 June 2017 and 31 December 2016, as the management based on the professional advice to the Bank considers that the loss is not likely to eventuate.

In addition, the Bank is subject to investigation for alleged involvement in tax evasion by others. On the 6th of July in Paris the decision of the court of first instance in the case of France Offshore was announced, according to which the claims of the prosecution towards the Bank were partially satisfied. The Bank strongly disagrees with the decision and this decision will be appealed. The Bank fully cooperated with French judicial authorities during the investigation and the trial. The Bank has never been involved in the tax evasion. The imposed fine of 80 million EUR appears widely ungrounded. Until the moment of entry into force of the decision, the obligation to pay the fine does not arise. Taking into account all following instances the legal process may continue for a long period of time taking up to 2-3 years or more. At the moment Bank has made provisions EUR 20,000 thousand.

33 Reverse repo

	30 June 2017 ’000 EUR Group	30 June 2017 ’000 EUR Bank	31 Dec 2016 ’000 EUR Group	31 Dec 2016 ’000 EUR Bank
Nomura International plc	85,572	85,572	93,419	93,419
Brissard International	-	-	16	16
Total	**85,572**	**85,572**	**93,435**	**93,435**

34 Equity accounted investees

The Group owns a share in the following associates, both associated companies provide transportation information services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorporation	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
				30 June 2017		**31 December 2016**
“AED Rail Service” Ltd	Latvia	Information services for the railway	43.00%	6	43.00%	7
“Dzelzcelu Tranzits Ltd	Latvia	Information services for the railway	49.12%	-	49.12%	-
Total				**6**		**7**

35 Related party transactions

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

’000 EUR	30 June 2017			31 Dec 2016		
	Subsidiaries and associates	Key management	Other related parties	Subsidiaries and associates	Key management	Other related parties
Loans and receivables due from customers	138,045	434	14,821	128,749	433	17,086
Current accounts and deposits due to customers	25,021	19,991	62,968	28,072	21,289	59,723
Issued debt securities	-	307	-	176	307	-
Commitments and guarantees	6,037	827	148	4,350	873	130
	30 June 2017			30 June 2016		
Interest income	2,985	6	405	2,895	6	453
Interest expense	-	535	555	-	572	493

Total remuneration included in General administrative expenses (Note 13):

	Six months ended 30 June			
	2017 ’000 EUR Group	2017 ’000 EUR Bank	2016 ’000 EUR Group	2016 ’000 EUR Bank
Members of the Council	272	254	106	88
Members of the Board of Directors	2,844	2,644	988	740
	3,116	**2,898**	**1,094**	**828**

36 Fair value of financial instruments

(a) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The Group

30 June 2017	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	369,011	12,832	5,784	387,627
Financial assets at fair value through profit or loss	14,817	737	76	15,630
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	144	-	144

31 Dec 2016	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	461,646	-	5,938	467,584
Financial assets at fair value through profit or loss	15,719	1,124	209	17,052
Financial liabilities				
Financial liabilitiesat fair value through profit or loss	-	442	-	442

The Bank

30 June 2017	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	383,005	12,832	32,429	428,266
Financial assets at fair value through profit or loss	-	737	76	813
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	144	-	144

31 Dec 2016	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	476,737	-	34,241	510,978
Financial assets at fair value through profit or loss	-	1,124	209	1,333
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	442	-	442

The following table shows the valuation techniques used in measuring Level 2 fair values:

Type	Valuation technique
Financial assets and liabilities at fair value through profit or loss	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

Under Level 3 of fair value hierarchy were classified units of RB Opportunity fund and certain shares, the fair value of which is measured based on estimated fair value of underlying assets.

36 Fair value of financial instruments, continued

(b) Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised.

The Group

30 June 2017	**Level 1 ’000 EUR**	**Level 2 ’000 EUR**	**Level 3 ’000 EUR**	**Total fair values ’000 EUR**	**Total carrying amount ‘000 EUR**
Financial assets					
Cash and balances with central banks	-	-	776,570	776,570	776,570
Loans and receivables from banks	-	-	530,339	530,339	530,339
Loans and receivables from customers	-	-	974,081	974,081	974,081
Reverse repo	-	-	85,572	85,572	85,572
Held-to-maturity instruments	296,330	-	-	296,330	295,972
Other financial assets	-	-	20,258	20,258	20,258
Financial liabilities					
Due to Bank of Latvia	-	-	120,000	120,000	120,000
Deposits and balances due to banks	-	-	30,146	30,146	30,146
Deposits and balances due to customers	-	-	2,509,837	2,509,837	2,509,837
Issued debt securities			55,037	55,037	55,037
Other financial liabilities	-	-	1,217	1,217	1,217
31 December 2016					
Financial assets					
Cash and balances with central banks	-	-	836,961	836,961	836,961
Loans and receivables from banks	-	-	522,424	522,424	522,424
Loans and receivables from customers	-	-	1,044,920	1,044,920	1,044,920
Reverse repo	-	-	93,435	93,435	93,435
Held-to-maturity instruments	319,773	-	-	319,773	319,574
Other financial assets	-	-	9,837	9,837	9,837
Financial liabilities					
Due to Bank of Latvia	-	-	120,000	120,000	120,000
Deposits and balances due to banks	-	-	34,096	34,096	34,096
Deposits and balances due to customers	-	-	2,742,726	2,742,726	2,742,726
Issued debt securities	-	-	57,809	57,809	57,809
Other financial liabilities	-	-	937	937	937

The fair value of financial assets and liabilities measured at amortized cost, except for held to maturity investments, is measured using discounted cash flows. Discounting rate is derived from market interest rate adjusted for risk related to individual instruments. Held to maturity investments fair value is measured based on individual market price.

36 Fair value of financial instruments, continued

The Bank

30 June 2017	Level 1 ’000 EUR	Level 2 ’000 EUR	Level 3 ’000 EUR	Total fair values ’000 EUR	Total carrying amount ‘000 EUR
Financial assets					
Cash and balances with central banks	-	-	776,516	776,516	776,516
Loans and receivables from banks	-	-	529,774	529,774	529,774
Loans and receivables from customers	-	-	1,047,958	1,047,958	1,047,958
Reverse repo			85,572	85,572	85,572
Held-to-maturity instruments	296,428	-	-	296,428	293,030
Other financial assets	-	-	13,984	13,984	13,984
Financial liabilities					
Deposits and balances due to banks	-	-	29,903	29,903	29,903
Due to Bank of Latvia	-	-	120,000	120,000	120,000
Deposits and balances due to customers	-	-	2,530,871	2,530,871	2,530,871
Issued debt securities	-	-	55,104	55,104	55,104
Other financial liabilities	-	-	1,182	1,182	1,182
31 December 2016					
Financial assets					
Cash and balances with the central banks	-	-	836,920	836,920	836,920
Loans and receivables due from banks	-	-	521,721	521,721	521,721
Loans and receivables due from customers	-	-	1,116,873	1,116,873	1,116,873
Reverse repo			93,435	93,435	93,435
Held-to-maturity instruments	319,227	-	-	319,227	315,848
Other financial assets	-	-	7,061	7,061	7,061
Financial liabilities					
Due to Bank of Latvia			120,000	120,000	120,000
Deposits and balances due to banks	-	-	33,957	33,957	33,957
Deposits and balances due to customers	-	-	2,767,739	2,767,739	2,767,739
Issued debt securities	-	-	57,985	57,985	57,985
Other financial liabilities	-	-	882	882	882

37 Operating segments

The Group has four reportable segments, as described below, which are the Group`s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

For each of the strategic business units, the Group upper level management reviews internal management reports on at least monthly basis.

The following summary describes the operations in each of the Group`s reportable segments:

Lending & Investment	Includes commercial loans to customers, trade finance, private mortgages and other financing products and investments.
Customer services	Includes general banking operations, customer payments, credit card transactions and other transactions with all customers.
Financial markets & Treasury	Includes customer asset management products such as funds as well as customer securities brokerage, customer repurchase financing and includes funding of the bank's activities though customer deposits, liquidity management, foreign exchange, issues of debt securities, investing in liquid assets such as short term placements and corporate and government securities.
Investments and non-banking segments	Includes business activities of Group subsidiaries and non-banking income including real estate rental and leasing businesses.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group upper level management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is based on resources cost compensation, calculation based on management`s assessment of the level of risk.

37 Operating segments, continued

The following table shows the operating segment structure of gross revenue of the Group for six months period ended at 30 June 2017 and financial assets and liabilities of the Group as at 30 June 2017:

`000 EUR **External revenue**	**Lending & investment**	**Customer services**	**Financial markets & Treasury**	**Investment and non-banking segments**	**Total**
Net interest income	32,182	185	1,970	-	**34,337**
Net fee and commission income	-	14,587	2,476	(7)	**17,056**
Net gain on financial instruments at fair value through profit or loss	-	-	509	-	**509**
Net foreign exchange income	-	1,583	8,259	-	**9,842**
Net realised gain on available-for-sale assets	-	-	21	-	**21**
Share of profit of equity accounted investees (net of income tax)	-	-	-	(1)	**(1)**
Other income/(expense)	1,586	(486)	(453)	6,359	**7,006**
Inter segment revenue	**(9,908)**	**4,220**	**5,688**	**-**	**-**
Total segment revenue	**23,860**	**20,089**	**18,470**	**6,351**	**68,770**
Impairment losses	(1,875)	(25)	-	(262)	**(2,162)**
Reportable segment profit before income tax	**11,327**	**6,159**	**10,677**	**(17,336)**	**10,825**
Reportable segment assets	**935,819**	**116,915**	**2,103,298**	**146**	**3,156,178**
Reportable segment liabilities	**-**	**1,946,164**	**768,147**	**-**	**2,714,311**

37 Operating segments, continued

The following table shows the operating segment structure of gross revenue of the Group for six months period ended at 30 June 2016 and financial assets and liabilities of the Group as at 31 December 2016:

`000 EUR **External revenue**	Lending & investment	Customer services	Financial markets & Treasury	Investment and non-banking segments	Total
Net interest income	32,708	134	(619)	6,791	**39,014**
Net fee and commission income	(68)	18,384	1,935	48	**20,299**
Net gain on financial instruments at fair value through profit or loss	-	-	15	1,117	**1,132**
Net foreign exchange income	-	1,952	8,798	234	**10,984**
Net realised gain on available-for-sale assets	-	30,959	178	-	**31,137**
Share of loss of equity accounted investees (net of income tax)	-	-	-	(12)	**(12)**
Other income/(expense)	364	(20)	103	3,426	**3,873**
Inter segment revenue	**(15,372)**	**4,083**	**11,289**	**-**	**-**
Total segment revenue	**17,632**	**55,492**	**21,699**	**11,604**	**106,427**
Impairment losses	(14,322)	-	-	(186)	**(14,508)**
Reportable segment profit before income tax	**(2,422)**	**43,915**	**17,923**	**(3,354)**	**56,062**
Reportable segment assets	**870,910**	**68,266**	**2,295,991**	**158,214**	**3,393,381**
Reportable segment liabilities	**-**	**2,226,148**	**725,799**	**3,126**	**2,955,073**

37 Operating segments, continued

	30 June 2017 '000 EUR	30 June 2016 '000 EUR
Operating income		
Total revenue for reportable segments	68,770	106,427
Consolidated operating income	68,770	106,427
Profit before income tax		
Total profit or loss for reportable segments	10,825	56,062
Consolidated profit before income tax	10,825	56,062

	30 June 2017 '000 EUR	31 Dec 2016 '000 EUR
Assets		
Total assets for reportable segments	3,156,178	3,393,381
Other unallocated amounts	85,338	80,209
Consolidated total amounts	3,241,516	3,473,590
Liabilities		
Total liabilities for reportable segments	2,714,311	2,955,073
Other unallocated amounts	47,060	24,643
Consolidated total amounts	2,761,371	2,979,716

Other unallocated amounts to assets: Property and equipment, Intangible assets, Non-current assets held for sale, Current tax asset, Deferred tax asset and Other assets (excluding collateral assumed on non -performing loans).

Other unallocated amounts to liabilities: Current tax liability, Deferred tax liability and Other liabilities.

38 Interest in other entities

Non-controlling interest in subsidiaries

The following table summarises the information relating to each of the Group`s subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations as at 30 June 2017 for the period of 6 months ended 30 June 2017:

`000 EUR	**InCredit Group Ltd**	**RAM Fund-FI High Yield USD**	**RAM Fund-Fixed income Investment grade USD**	**Other subsidiaries**	**Total**
Percentage of Non-controlling interest	**49.00%**	**41.11%**	**52.52%**		
Financial instruments at fair value through profit or loss	-	5,329	9,203		
Loans and advances due from customers	37,178	-	-		
Loans and receivables due from banks	-	2,665	518		
Other assets	836	-	-		
Deposits and balances due to financial institutions	(29,017)	-	-		
Current accounts and deposits due to customers	(2,214)	-	-		
Other liabilities	(3,042)	(8)	(9)		
Net assets	**3,741**	**7,986**	**9,712**		
Carrying amount of Non-controlling interest	**1,833**	**3,283**	**5,101**	**892**	**11,109**
Revenue	4,290	239	303		
Profit after tax	1,420	198	(403)		
Total comprehensive income	**1,420**	**198**	**(403)**		
Profit/(loss) allocated to Non-controlling interest	**696**	**81**	**(212)**	**(108)**	**457**
Cash flows from operating activities	1,397	738	1,115		
Cash flows from investment activities	22	-	-		
Cash flows from financing activities, before dividends to NCI	2,420	356	(2,265)		
Cash flows from financing activities - cash dividends to NCI	(20)	356	(2,265)		
Net increase (decrease) in cash and cash equivalents	**1,399**	**1,094**	**(1,150)**		

38 Interest in other entities, continued

The following table summarises the information relating to each of the Group`s subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations as at 31 December 2016 and for the period of six months ended 30 June 2016:

`000 EUR As at 31 December 2016	**InCredit Group Ltd**	**RAM Fund-Fixed income High Yield USD**	**RAM Fund-Fixed income Investment grade USD**	**Other subsidiaries**	**Total**
Percentage of Non-controlling interest	**49.00%**	**32.64%**	**65.63%**		
Financial instruments at fair value through profit or loss	-	4,727	10,673		
Loans and advances due from customers	35,045	-	-		
Loans and receivables due from banks	-	3,226	1,724		
Other assets	936	-	-		
Deposits and balances due to financial institutions	(27,011)	-	-		
Current accounts and deposits due to customers	(1,726)	-	-		
Other liabilities	(2,522)	(17)	(16)		
Net assets	**4,722**	**7,936**	**12,381**		
Carrying amount of Non-controlling interest	**1,824**	**2,590**	**8,126**	**1,689**	**14,229**
As at 30 June 2016					
Revenue	3,778	556	511		
Profit after tax	655	347	167		
Total comprehensive income	**655**	**347**	**167**		
Profit/(loss) allocated to Non-controlling interest	**321**	**125**	**105**	**(68)**	**483**
Cash flows from operating activities	501	153	1,038		
Cash flows from investment activities	(28)	-	-		
Cash flows from financing activities, before dividends to NCI	1,303	(681)	(566)		
Cash flows from financing activities - cash dividends to NCI	(397)	(681)	(566)		
Net increase (decrease) in cash and cash equivalents	**76**	**(528)**	**472**		

38 Interest in other entities, continued

The Group is holding units of investment funds for which it acts as asset management company, i.e. has power over individual investment decisions in line with investment strategy published in the prospectus. The Group is obtaining fixed fee for asset management and custodian services. As at 30 June 2017 and 31 December 2016, the Group evaluated that it has control over the investment funds and the funds are consolidated. Units of the funds are traded on regular basis, and for the period ended on 30 June 2017 the trades resulted in net decrease in non-controlling interest amounting to EUR 2,890 thousands (2016: decrease EUR 546 thousands).

39 Change in financial risk sensitivity

An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the period to changes in the foreign currency exchange rates based on positions existing as at 30 June 2017 and as at 31 December 2016 and a scenario of a 5% change in USD to EUR exchange rates, while the other variable remain constant, is as follows:

Group	**30 June 2017**		**31 Dec 2016**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	(222)	301	(501)	254
5% depreciation of USD against EUR	222	(301)	501	(254)

Bank	**30 June 2017**		**31 Dec 2016**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	(190)	976	(89)	999
5% depreciation of USD against EUR	190	(976)	89	(999)

An analysis of sensitivity of the Bank's and the Group's net income for the year and equity to changes in securities prices based on positions existing as at 30 June 2017 and as at 31 December 2016 and a scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

Group	**30 June 2017**		**31 Dec 2016**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% increase in securities prices	724	19,381	759	23,379
5% decrease in securities prices	(724)	(19,381)	(759)	(23,379)

Bank	**30 June 2017**		**31 Dec 2016**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% increase in securities prices	9	21,413	10	25,549
5% decrease in securities prices	(9)	(21,413)	(10)	(25,549)

40 Disposal of subsidiaries

The disposal of the subsidiaries in 2017 had the following effect on the Group`s assets and liabilities at the date of disposal:

'000 EUR

	Miera 30C Ltd	Rietumu IT services Ltd	Rietumu Transport and Logistics Ltd	Total
Assets				
Loans and advances due from banks	-	691	3	694
Loans and receivables due from customers	24	-	-	24
Property and equipment	-	305	-	305
Intangible assets	-	835	-	835
Current tax asset	1	-	-	1
Other assets	-	72	-	72
Liabilities				
Other liabilities	-	(90)	-	(90)
Net identifiable assets and liabilities	**25**	**1,813**	**3**	**1,841**
Attributable to equity holders of the Bank	**25**	**1,813**	**3**	**1,841**
Consideration received	**25**	**300**	**3**	**328**