

JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

**UNAUDITED CONDENSED
INTERIM FINANCIAL STATEMENTS OF THE GROUP
FOR 6 MONTHS PERIOD ENDED JUNE 30, 2017**

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JSC DEVELOPMENT FINANCE INSTITUTION ALTUM
REPORT OF THE BOARD OF DIRECTORS

Activity during reporting period

The joint stock company Development Finance Institution Altum (hereinafter referred to as Group) is a state-owned development finance institution that provides state aid to specific target groups by means of financial instruments (loans, guarantees, investments in venture capital funds, a.o.). By way of implementing the state aid programmes Group fills in the market gaps and ensures accessibility to the funding in the areas the state has identified as priority.

The mission of Group is – We help Latvia to thrive!

The vision of Group is – Co-operation partner and financial expert in development of the national economy.

The role of the development finance institution in the financial market is to:

- complement the financial market;
- fill in the market gaps and rectify the market failures;
- operate, as delegated by the state, in the defined areas and segments;
- implement the programmes jointly with private market participants.

The Development Finance Institution Law governs the operations of Group.

The Ministry of Finance holds 40% of Group's shares, the Ministry of Economics and Ministry of Agriculture – 30% each.

During 6 months of 2017 Group made a profit of 5,4 mln euros.

Operational Volumes

As at 30 June 2017 Group's (gross) books and records held a portfolio of the financial instruments granted within the state aid programmes for the total value of 432,3 mln euros made up of 13,005 projects, including:

- guarantee portfolio of 165,9 mln euros, the total number of transactions – 6,503;
- loan portfolio of 209,4 mln euros, the total number of transactions – 6,310;
- investments in venture capital funds for the total value of 57,0 mln euros, the total number of projects financed by fund – 192.

Since the start of the year the portfolio of Group's financial instruments has increased by 2% (9,5 mln euros) in terms of volumes and by 14% (by 1556 projects) in terms of the number of projects. Among the financial instruments the guarantee portfolio has had the most rapid growth by 12.7% in terms of volumes (18,7 mln euros) and by 32% in terms of the number of transactions (by 1566 transactions). Implementation of the Housing Guarantee Programme has contributed significantly to the rise of the number of transactions. A more rapid increase of the guarantee portfolio in Group's total portfolio of financial instruments tallies with medium-term development strategy of Group.

Volumes of New Transactions

In the reporting period lasting from 1 January 2017 till 30 June 2017 the funding granted within the state aid programmes amounted to 61 mln euros, supporting 2314 projects, including:

- guarantees for 34,4 mln euros, the total number of transactions – 1,683 projects;
- loans for 25,4 mln euros, 625 projects;
- investments made by venture capital funds for 1,2 mln euros, 6 projects.

During 6 months of 2017, compared to the same period last year, the state aid programmes have had an equivalent number of new transactions: with the amount of the granted funding being identical, the number of supported projects has increased by 3% (or by 74 projects).

The guarantees for promotion of business were boosted specifically. In 6 months the business projects were granted new guarantees for 23,4 mln euros.

It is often that the companies lack adequate collateral to obtain a bank loan or amount of the loan needed for business development. Being aware of the situation and expecting to channel more financial resources into the national economy, Group expands considerably its activities in issuing of credit guarantees for promotion of business.

REPORT OF THE BOARD OF DIRECTORS (continued)

In year 2017, by way of expanding the activities in the field of credit guarantees, the maximum single guarantee amount was increased to 3 mln euros.

The new solution for granting of guarantees – delegated guarantees – is a way for Group to speed up issuing of guarantees and promote availability of funding for small and medium-sized enterprises even more. In order to implement the delegated guarantees, a special co-operation agreement has been concluded with SEB Bank. It is planned to initiate similar co-operation also with other banks. The service enables the banks to review the loan applications of the small and medium-sized enterprises and reply faster.

To increase competitiveness of Latvian companies, as of Q2, the export credit guarantees are being issued also to the small-scale exporters (with export turnover below 2 mln euros) for transactions with EU member states and for transactions with longer maturities of deferred payments (from 180 to 720 days). Due to the new guarantees the volume of protected export to the EU member states will increase considerably. More than 150 enterprises will be supported within the framework of the programme that will guarantee export transactions to the EU member states for at least 82 mln euros. Enterprises of manufacturing industry, agricultural producers as well as small and medium-sized enterprises entering the export markets are expected to benefit most.

Venture Capital Investments

In Q2 of year 2017, within the framework of the Fund of funds established by Group to implement the financial instruments by means of the funding of the European Regional Development Fund (ERDF), Group finalised selection of the managers of the accelerator funds in an international tender. Acceleration is an activity not yet practised in Latvia intended to support the companies being in a very early development stage with public funding of 15 mln euros earmarked for the activity. Around 120 perspective ideas will receive accelerator and investment services.

In year 2017 selection of the financial intermediaries for the seed, start-up and expansion capital investment funds has been started. It is expected that the seed and start-up capital investment funds will be launched in Q2 of year 2018. The total earmarked public funding for Group's investments in the seed and start-up funds amounts to 30 mln euros. The expansion capital investment funds are to be launched in Q3 of year 2018 with the total earmarked public funding being 30 mln euros.

European Strategic Investment Fund

As part of promoting use of the funds of the European Strategic Investment Fund (EFSI) in Latvia and implementation of the large investment projects (above 50 mln euros), Group, in co-operation with the European Investment Bank and Representation of the European Commission in Latvia, organises on a regular basis informative campaigns and consults the large projects on EFSI funds. Co-operation has been established with Latvian commercial banks to attract investments needed for more efficient implementation of the large investment projects.

In order to expand support to the business ideas of the small and medium enterprises there is an agreement concluded with the European Investment Fund (EIF) on the counter-guarantees of InnovFIN Facility for the guarantee portfolio worth 30 mln euros. The risk cover provided by counter-guarantees allows Group to issue guarantees to the eligible projects at lower rates, thus reducing the costs for attracting financing for these projects. As at 30 June, 2017 there were 7 guarantees for 1.5 mln euros issued under InnovFIN Facility. Having applied improved financial support conditions, Group, within EFSI co-operation framework, has submitted to EIF an application for COSME programme to attract a guarantee instrument for financial support of start-ups segment.

Starting a Business

Promotion of start-ups is a significant business segment of Group. As at 30 June 2017, under the Start-ups Programme, the start-ups projects were granted loans totalling 39,9 mln euros financing 2,207 projects of the new entrepreneurs.

REPORT OF THE BOARD OF DIRECTORS (continued)

In year 2017, based on the current tendencies in the business angels' sector, Group expanded the options of the joint pilot project with Latvian Business Angels Network (LatBAN) regarding co-financing of business ideas. The expanded co-operation means that from now on also those viable business ideas where the syndicate – union of business angels consisting of several natural persons – investors having jointly decided to invest in a project – has decided to invest – will qualify for Group loan.

Aid for Improvement of Energy Efficiency of Multi-apartment Buildings

Group started to implement the Energy Efficiency Programme of Multi-apartment Buildings in year 2016. The total earmarked public funding (ERDF and state budget) of the programme is 166 mln euros to be supplemented by the funds of Group and loan.

In April 2016 Group opened stage one of the programme – consulting about the conditions, aid options and required documents. In view of the structure of the programme and project implementation conditions, extensive free of charge consultations were provided in co-operation with the Ministry of Economics and other partners in the cities of Latvia and Altum Competence Centre.

In year 2017, to consult about the programme:

- workshops with 780 participants were organized in 21 towns of Latvia;
- Group organised two practical training workshops for the entities authorised to represent the residents of multi-apartment buildings (submitters of the projects);
- new marketing materials were prepared facilitating absorption of the programme (chart of procurement information, VAT application, posters).

On 28 September 2016 Group started to accept the grant, loan and guarantee applications for the Energy Efficiency Programme of Multi-apartment Buildings. As at 30 June 2017, within the framework of the programme, guarantees of 389 thsd euros were granted to 4 projects; project support grants were given to 5 projects for the sum total of 461 thsd euros. In the first half-year 89 project applications, considered to be a large number, were received for the programme of which 80 applications were approved. For many of the submitted projects incorrectly drawn procurement's regulations halted their progress.

Support to Families with Children for Buying Housing

As at 30 June 2017 the Housing Guarantee Programme had granted 5,683 guarantees for 38 mln euros to the families with children. Around 76% of the volume of guarantees had been granted to the families residing in Rīga and adjacent regions. Breakdown of data by cities shows that guarantees for the housing loans are used actively also by families with children in Liepāja, Jelgava, Ventspils, Jūrmala and Daugavpils. The families having received programme's guarantees have 8251 children among them.

Land Fund of Latvia

As at 30 June 2017, the balance sheet of the Land Fund administered by Group enlisted 179 properties with the total land area of 3,124 ha, worth 7,998 mln euros.

As at 30 June 2017, 97% of the fund's properties had been attracted the lessees – farmers, including ten newly established farmers, in need of agricultural land for development of their economic activities.

The Land Fund has bought agricultural land in all regions of Latvia:

- in Zemgale – 1,193 ha;
- in Vidzeme – 632 ha;
- in Kurzeme – 508 ha;
- in Latgale – 333 ha;
- in Rīga region – 458 ha.

In the reporting period the preparations were made for introduction of new type of state aid under the Land Fund – reverse rent whereby a farmer could sell its property to the Land Fund and continue using it for production purposes by subsequently renting the property from the fund.

REPORT OF THE BOARD OF DIRECTORS (continued)

Risk Management

In order to have an adequate risk management, Group has developed the Risk Management System that provides both preventive risk management and timely implementation of risk mitigation or prevention measures. While assuming the risks, Group remains capable of implementing the established operational targets and assignments in the long run. In its risk management Group makes use of various risk management methods and instruments as well as establishes risk limits and restrictions. The risk management methods are chosen based on materiality of the particular risk and its impact on Group's operations. The Development Finance Institution Law stipulates that a finance institution has to prepare an assessment of the programme's impact, risks and expected losses, financial results and implementation costs prior to its approval by Cabinet of Ministers.

The Cabinet of Ministers approves the programmes and lays down their implementation procedures, funding, eligible operations and expenditure, including funding for covering the expenses of the finance institution.

Rating

Moody's Investors Service has assigned to joint stock company Development Finance Institution Altum (parent company of the Group) an investment grade rating Baa1 with a stable outlook. The assigned rating is among the highest ratings ever assigned to the capital companies of Latvia. The rating was assigned on 15 June 2017. Obtaining of the rating was a step towards the scheduled issue of notes on the Baltic Bonds Market. The assigned rating reflects Group's compliance with the high requirements of the financial markets towards corporate management standards, financial stability, sustainability and other factors.

Future Outlook

Altum, based on the market gap analysis and in co-operation with the responsible ministries, drafts and implements new state aid programmes.

In year 2017 the volume of new transactions performed with Altum's financial instruments is estimated at 180 mln euros with support to be provided to more than 5,500 business projects. The financed projects will create more than 3,100 new work places. The total investment of the Altum's financial instruments, including the co-financing of the aid beneficiaries, in the national economy, is expected to be around 290 mln euros.

Group plans to issue transferable debt securities (notes) as series of notes under the programme to be registered with the Latvian Central Depository and quoted on Nasdaq Riga for the total face value of 30 mln euros. SEB Bank has been chosen as the manager and advisor of the issue. The notes will be issued to diversify Group's funding structure and provide for several state-supported investment projects in the national economy of Latvia. The funds attracted through the issue of notes will amplify the financial support to the business projects in such fields as energy efficiency, promotion of renewable energy resources and decreasing of impact of the negative effects of climate change.



Reinis Bērziņš
Chairman of the Board

15 Augusts 2017

SUPERVISORY COUNCIL AND BOARD OF DIRECTORS

Council

The Council was established by a Ministry of Finance order No 584 on 19 December 2013.

<i>Name, surname</i>	<i>Position</i>	<i>Date appointed</i>
Līga Kļaviņa	Chairperson of the Council	19/12/2013 – 18/12/2016 29/12/2016 – present
Jānis Šnore	Council Member	19/12/2013 - 18/12/2016 29/12/2016 - present
Kristaps Soms	Council Member	29/12/2016 - present
Gatis Sniedziņš	Council Member	19/12/2013 – 04/10/2016

The Board was established by a Ministry of Finance order No 584 on 19 December 2013.

On October 2, 2015 the Council decided to re-elect to the Board the Board members - Juris Vaskāns and Jēkabs Krieviņš and elect a new Board member – Inese Zīle and new Chairman of the Board – Reinis Bērziņš. The Council also ruled that Rolands Paņko had to assume the duties of Board member as of October 12, 2015.

<i>Name, surname</i>	<i>Position</i>	<i>Date appointed / removed</i>
Reinis Bērziņš	Chairman of the Board	12/10/2015 - present
Jēkabs Krieviņš	Board Member	12/10/2015 - present
Juris Vaskāns	Board Member	12/10/2015 - present
Inese Zīle	Board Member	12/10/2015 - present
Rolands Paņko	Board Member	15/04/2014 – 12/10/2015 - Chairman of the Board; 12/10/2015 – 14/04/2017 – Board Member


STATEMENT OF RESPONSIBILITY OF THE BOARD OF DIRECTORS

Riga

15 Augusts 2017

The Board of Directors (Management) is responsible for preparing of the financial statements. The Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 8 to 34 for the period from 1 January 2017 to 30 June 2017. The Management confirms that the Group's financial statements were prepared on a going concern basis in accordance with International Accounting Standard 34 Interim Financial Reporting.

Appropriate accounting policies have been applied on a consistent basis. The Management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

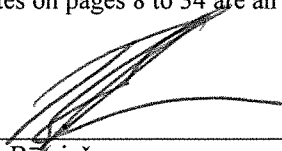


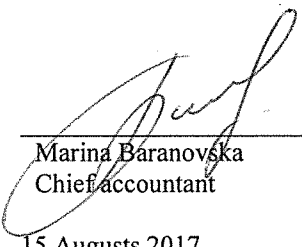
Reinis Bērziņš
Chairman of the Board

**INTERIM CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME**
(all amounts in thousands of euro)

	Notes	6 months of 2017	6 months of 2016
Interest income	3.	6,756	7,323
Interest expense		(220)	(803)
Net interest income		6,536	6,520
Fee and commission income		241	233
Fee and commission expense		(138)	(95)
Net income from fees and commissions		103	138
Net trading income		(103)	(59)
Share of (loss) of investment in joint venture and associate	10.	(693)	(2,950)
Other income	4.	5,491	3,325
Operating income before operating expenses		11,334	6,974
Staff costs		(2,932)	(3,056)
Administrative expense	5.	(1,743)	(2,415)
Amortisation of intangible assets and depreciation of property, plant and equipment		(210)	(296)
Net impairment provisions	6.	(1,035)	(375)
Profit before corporate income tax		5,414	832
Corporate income tax		-	-
Profit for the period		5,414	832
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net profit / (loss) on available for sale investments	19.	(561)	666
Other comprehensive income / (loss) for the period, before taxes		(561)	666
Total comprehensive income for the period		4,853	1,498

The notes on pages 8 to 34 are an integral part of these interim condensed financial statements.


Reinis Bērziņš
Chairman of the Board



Marina Baranovska
Chief accountant

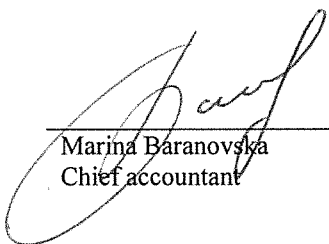
15 Augusts 2017

**INTERIM CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL POSITION**
(all amounts in thousands of euro)

	Notes	30/06/2017	31/12/2016 (audited)
<u>Assets</u>			
Due from other credit institutions and Treasury	7.	94,501	89,553
Investment securities - available for sale		62,453	64,294
Investment securities – held to maturity		467	1,531
Loans and receivables	8.	193,690	201,250
Derivatives	9.	105	-
Investments in venture capital funds – associates	10.	56,783	58,296
Deferred expense		301	413
Accrued income		2,336	1,646
Investment property	11.	20,264	17,087
Property, plant and equipment		3,474	3,507
Intangible assets		550	168
Other assets		3,965	4,014
Assets held for sale	12.	-	1,367
Total assets		438,889	443,126
<u>Liabilities</u>			
Due to credit institutions	13.	51,283	56,195
Derivatives	9.	-	854
Due to general governments	14.	43,610	46,914
Deferred income		1,291	777
Accrued expense		700	1,198
Support programme funding	15.	96,486	96,822
State aid	15.	5,088	6,849
Provisions	17.	17,314	16,864
Other liabilities		6,521	6,559
Total liabilities		222,293	233,032
<u>Capital and reserves</u>			
Share capital		204,862	204,862
Reserves	18.	(2,561)	(8,235)
Available for sale reserve	19.	8,531	9,092
Accumulated profit		5,764	4,375
Total capital and reserves		216,596	210,094
Total liabilities, capital and reserves		438,889	443,126

The notes on pages 8 to 34 are an integral part of these interim condensed financial statements.


Reinis Bērziņš
Chairman of the Board


Marina Baranovska
Chief accountant

15 Augusts 2017

JSC Development Finance Institution Altum
Interim condensed financial statements of the Group for 6 months period ended June 30, 2017

**INTERIM CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY**
(all amounts in thousands of euro)

	Share capital	Reserves	Available for sale reserve	Retained earnings	Total capital
As at 31 December 2015	204,862	(16,082)	8,625	2,205	199,610
Other comprehensive income (Note 19.)	-	-	666	-	666
Profit for the period	-	-	-	832	832
Total comprehensive income for the period	-	-	666	832	1,498
Changes to increase of reserve capital (Note 18.)	-	5,472	-	-	5,472
Increase of reserve capital (Note 18.)	-	1,560	-	-	1,560
Distribution of 2015 year profit	-	1,829	-	(1,829)	-
As at 30 June 2016	204,862	(7,221)	9,291	1,208	208,140
Other comprehensive income (Note 19.)	-	-	(199)	-	(199)
Profit for the period	-	-	-	3,167	3,167
Total comprehensive income / (loss) for the period	-	-	(199)	3,167	2,968
Changes to decrease of reserve capital (Note 18.)	-	(5,014)	-	-	(5,014)
Increase of reserve capital (Note 18.)	-	4,000	-	-	4,000
As at 31 December 2016	204,862	(8,235)	9,092	4,375	210,094
Other comprehensive income (Note 18.)	-	-	(561)	-	(561)
Profit for the period	-	-	-	5,414	5,414
Total comprehensive income / (loss) for the period	-	-	(561)	5,414	4,853
Changes to increase of reserve capital (Note 18.)	-	1,649	-	-	1,649
Distribution of 2016 year profit	-	4,025	-	(4,025)	-
As at 30 June 2017	204,862	(2,561)	8,531	5,764	216,596

The notes on pages 8 to 34 are an integral part of these interim condensed financial statements.

**INTERIM CONDENSED CONSOLIDATED
CASH FLOW STATEMENT**
(all amounts in thousands of euro)

	Notes	6 months of 2017	6 months of 2016
Profit before taxes		5,414	832
Amortisation of intangible assets and depreciation of property, plant and equipment		210	296
Interest income		(6,756)	(7,323)
Interest received		5,548	5,329
Interest expenses		220	803
Interests paid		(508)	(917)
Increase in provisions for impairment of loans, guarantees, other assets and held-to-maturity investment securities		1,035	375
Revaluation of investments in venture capital funds (Note 10.)		693	2,950
Increase in deferred income and accrued expense		16	(185)
(Increase) / decrease in deferred expense and accrued income		(577)	41
Decrease / (increase) of other assets		(4,466)	6,376
(Decrease) in other liabilities		(6,385)	(6,638)
(Increase) / decrease of cash and cash equivalents used before changes in assets and liabilities		(5,556)	1,939
Due from credit institutions decrease		-	1,167
Decrease of loans		7,667	(2,572)
Due to credit institutions increase		(3,302)	7,352
Corporate income tax		-	-
Net cash flow from operating activities		(1,191)	7,886
Cash flows from investment activities			
Investments in securities, net		3,710	441
Acquisition of property, plant and equipment and intangible assets		(558)	(356)
Sale of assets held for sale, net		5,239	-
Investments in venture capital funds, net (Note 10.)		872	(6,621)
Purchase of investment properties, net (Note 11.)		(3,129)	(2,206)
Net cash flow of investment activities		6,134	(8,742)
Cash flows from financing activities			
Increase in reserve capital		-	1,560
Net cash flow from financing activities		-	1,560
Increase in cash and cash equivalents		4,943	704
Cash and cash equivalents at the beginning of period		84,553	43,716
Cash and cash equivalents at the end of period	24.	89,496	44,420

The notes on pages 8 to 34 are an integral part of these interim condensed financial statements.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

APPROVAL OF FINANCIAL STATEMENTS

The management of the Group has approved these financial statements on 15 Augusts 2017.

1 GENERAL INFORMATION

(1) Background information

The joint-stock company Development Finance Institution Altum (Company) was established on 27 December 2013 based on the decision of the Cabinet of Ministers.

The mission of the Group is, by merging the SJSC Rural Development Fund (RDF), single registration No 40003227583, Latvian Guarantee Agency Ltd (LGA), single registration No 40003375584, and SJSC Latvian Development Finance Institution ALTUM (ALTUM), single registration No 40003132437, into a unified aid-providing institution, to become an integrated development finance institution, which, by means of state aid financial instruments, would provide aid in an efficient and professional manner to particular target groups in the form of financial instruments (loans, guarantees, investments in venture capital funds, etc.), complementing this also with non-financial support (consultations, training, mentoring, etc.) within some programmes, as well as implementing other Government-delegated functions.

The establishment of the integrated Development Finance Institution was accomplished in two stages. The first stage was the transferring of the equity of RDF, LGA and ALTUM to the Company, thus establishing a group of development finance institutions (hereinafter – Group). This stage was accomplished successfully on 11 September 2014, when all shares of ALTUM, LGA and RDF were invested in the equity capital of the Company as investment in kind

The second stage encompassed reorganization of the Company, ALTUM, LGA and RDF thus establishing an integrated development finance institution. For this purpose, on 28 October 2014, ALTUM, LGA and RDF signed a reorganization agreement on merging these companies with JSC Development Finance Institution.

This stage was successfully completed by registration with the Enterprise Register of the Republic of Latvia on 15 April 2015. As a result, ALTUM, LGA, RDF and Company's accounting records were merged on 1 April 2015. The newly established integrated development finance institution will implement the existing state aid programmes and financial instruments of ALTUM, LGA and RDF and, together with policy makers, develop new programmes and financial instruments.

As of 15 April 2015 the Company has changed its name from JSC Development Finance Institution to JSC Development Finance Institution Altum.

The establishment of the Group and reorganization of the development finance institutions - ALTUM, LGA and RDF did not affect continuity of the existing aid programmes.

2 ACCOUNTING POLICIES

(1) Basis of preparation

These interim condensed consolidated financial statements for 3 months period ended on 30 June 2017 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*, as adopted in the European Union. The interim consolidated financial statements are to be used together with uncondensed financial statements for year 2016 prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

All amounts in the interim consolidated financial statements are presented in the national currency of Latvia – euro (EUR).

Corporate income tax is recognised for each period based on the expected average weighted effective corporate income tax rate for full financial year. The corporate income tax expense accumulated over one period of financial year may be adjusted in subsequent financial year's periods provided the estimation of the average weighted effective rate of the corporate income tax is adjusted. Corporate income tax expense for the interim period is accumulated using the tax rate to be applied to the expected annual income, i.e. the expected average weighted effective corporate income tax rate for the reporting year is applied to the profit before taxes of the interim period.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

Several new standards and interpretations have been published that become effective for the financial reporting periods beginning on or after 1 April 2017 or have not been endorsed by the European Union yet:

FRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018).

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018).

IFRS 15: Revenue from Contracts with Customers (Clarifications) (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU).

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU).

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments) (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU).

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.).

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU).

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU).

In the condensed consolidated statements for year 2016 the Group's management has described impact (if any) of the applied new standards and interpretations on these financial statements. Detailed assessment is in the pipeline with results to be presented in the financial statements for year 2017.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

3. INTEREST INCOME

	01/01/2017 - 30/06/2017	01/01/2016 - 30/06/2016
- interest on balances due from credit institutions	9	25
- interest on loans and guarantees	4,814	5,277
<i>including on impaired loans (see Note 8)</i>	406	509
- interest on securities at amortised cost	35	39
- interest on securities at fair value	1,052	1,770
- other interest income*	846	212
	<u>6,756</u>	<u>7,323</u>

* Item *Other interest income* includes state aid interest of EUR 51 thsd as well as interest income from revaluation of *Real Estate Funds*' investments.

4. OTHER INCOME

	01/01/2017- 30/06/2017	01/01/2016- 30/06/2016
Other operating income*	4,227	591
Compensations**	1,152	2,448
Income from property privatisation services	-	190
Income from lease payments for operational leases	112	96
	<u>5,491</u>	<u>3,325</u>

* Item *Other operating income* includes income from sale of the office building situated at Elizabetes street 41/43, Riga. As a result of the sale the Group earned 3,872 thsd euros (Note 12.).

Pursuant to the agreement *On Implementation of the Holding Fund* (No LĪg.2011/15) concluded with the Ministry of Economics of the Republic of Latvia, the funding provided by the Ministry of Economics must be increased by net interest and other income, as stipulated by agreements with financial intermediaries, including also from venture capital funds. In the first half-year of 2017 the financial intermediaries contributed 118 thsd euros of income generated from investments that were 100% eligible for the funding of the Ministry of Economics.

** Compensations include the compensation for management expenses of the state aid programmes implemented by the Group. Increase in received compensations is connected with implementation of the new state aid programmes - Fund of funds and Energy Efficiency Programme of Multi-apartment Buildings.

5. ADMINISTRATIVE AND OTHER OPERATING EXPENSE

	01/01/2017- 30/06/2017	01/01/2016- 30/06/2016
Premises and equipment maintenance expense	351	461
Information system and communication expense	484	518
Professional services	246	145
Advertising and public relations	205	193
Training and other staff expense	75	46
Real estate tax	174	144
Expense of assets that have been taken over in the debt collection process	146	334
Other expenses	62	574
	<u>1,743</u>	<u>2,415</u>

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

6. IMPAIRMENT PROVISIONS, NET

	01/01/2017 - 30/06/2017	01/01/2016 - 30/06/2016
Provisions for impairment on:		
- loans	2,197	2 627
- other assets	558	221
- investments in venture capital funds	-	-
- debt securities	-	-
- guarantees	1,475	1,785
	<u>4,230</u>	<u>4,633</u>
Release of provisions for impairment on:		
- loans	(1,389)	(286)
- other assets	(69)	(1,850)
- investments in venture capital funds (Note 10.)*	-	-
- debt securities	(54)	(394)
- guarantees	(783)	(1,231)
	<u>(2,295)</u>	<u>(3,761)</u>
Income from release of provisions for onerous contracts (guarantees)	<u>(437)</u>	<u>-</u>
Recovery of loans written off in previous periods	<u>(463)</u>	<u>(497)</u>
Total provisions for impairment	<u>1,035</u>	<u>375</u>

* Item *Income from release of provisions* includes income of 54 thsd euros from impairment of venture capital funds that was 100% compensated from the Risk Coverage Reserve pursuant to the agreement *On Implementation of the Holding Fund* concluded with the Ministry of Economics (agreement No LĒg.2011/15) (Note 18.). In the first half-year of 2016 there was no movement in provisions for venture capital funds.

7. DUE FROM OTHER CREDIT INSTITUTIONS AND TREASURY

	30/06/2017	31/12/2016
Due from credit institutions registered in OECD countries	-	2
in Latvia and Treasury	94,501	89,551
	<u>94,501</u>	<u>89,553</u>

When placing the funds with the Treasury of the Republic of Latvia and monetary financial institutions, the external credit ratings assigned to these financial institutions are evaluated. The evaluation of the financial institutions not having been assigned an individual rating is based on the ratings assigned to their parent banks that are one notch lower as well as their financial and operational assessments. Once the contracts have been concluded, the Group supervises the monetary financial institutions and follows that the assigned limits comply with credit risk assessment:

Moody's ratings	Aaa	Aa1- Aa3	A1-A3	Baa1- Baa3	Ba1- Ba3	B1- B3	Caa- C	WR
Credit risk level	very low risk	low risk	risk below average	average risk	risk above average	high risk	very high risk	Rating cancelled

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

7. DUE FROM OTHER CREDIT INSTITUTIONS AND TREASURY (continued)

The distribution of Group's balances due from credit institutions and Treasury of the Republic of Latvia as at 30 June 2017:

Moody's ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	WR	Total
Due from credit institutions registered in OECD countries	-	-	-	-	-	-	-	-	-
Due from credit institutions registered in Latvia and Treasury	-	27,300	62,419	-	4,782	-	-	-	94,501
Total	-	27,300	62,419	-	4,782	-	-	-	94,501

The distribution of Group's balances due from credit institutions and Treasury of the Republic of Latvia as at 31 December 2016:

Moody's ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	WR	Total
Due from credit institutions registered in OECD countries	-	2	-	-	-	-	-	-	2
Due from credit institutions registered in Latvia and Treasury	-	23,360	63,512	-	-	2,679	-	-	89,551
Total	-	23,362	63,512	-	-	2,679	-	-	89,553

As at 30 June 2017 the Group had accounts with 5 banks and Treasury of the Republic of Latvia.

The average interest rate on balances due from credit institutions was 0.1% as at 30 June 2017 (at 31 December 2016: 0.07%).

For amount of cash and cash equivalents, please refer to Note 24.

8. LOANS AND RECEIVABLES

Loans by type of borrower:

	30/06/2017	31/12/2016
Private companies	181,574	188,245
Individuals	24,118	24,490
Financial institutions	2,748	3,655
Local governments	317	344
Public and religious institutions	155	172
Accrued interest	452	523
Total gross loans	209,364	217,429
Allowance for impairment loss	(15,674)	(16,179)
Total net loans	193,690	201,250

The granted loans constitute the Group's balances due from residents of Latvia.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

8. LOANS AND RECEIVABLES (continued)

Granted loans by branches of economy:

	30/06/2017	31/12/2016
Agriculture and forestry	84,094	83,048
Manufacturing	43,727	47,104
Private individuals	24,119	24,490
Retail and wholesale	15,690	16,901
Other industries	13,879	14,871
Hotels and restaurants	7,121	7,653
Electricity, gas and water utilities	6,138	6,734
Transport, warehousing and communications	2,279	4,620
Real estate	4,255	4,310
Construction	4,018	3,818
Financial intermediation	1,537	2,443
Fishing	1,738	570
Municipal authorities	317	344
Accrued interest on loans	452	523
Total gross loans	209,364	217,429

The extent of loan and advance concentration with respect to a single customer with total credit exposures equal to or exceeding 1,000 thsd euros is presented below:

	30/06/2017	31/12/2016
Number of customers	26	26
Total credit exposure of customers	38,473	43,740
Percentage of total gross portfolio of loans	18.3%	20.0%

Loans issued by the Group by type of impairment valuation:

	30/06/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Individually assessed loans	6,427	139,335	145,762	6,728	145,964	152,692
Collectively assessed loans	17,740	45,862	63,602	17,821	46,916	64,737
Total gross loans	24,167	185,197	209,364	24,549	192,880	217,429
Allowance for impairment loss						
-individually assessed	(1,160)	(14,370)	(15,530)	(1,105)	(14,902)	(16,007)
Allowance for impairment loss						
- collectively assessed	(42)	(102)	(144)	(57)	(115)	(172)
Total net loans	22 965	170,725	193,690	23,387	177,863	201,250

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

8. LOANS AND RECEIVABLES (continued)

Loans granted by the Group by their quality assessment:

	30/06/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Neither past due nor impaired	19,393	139,192	158,585	19,839	137,487	157,326
Past due but not impaired	2,478	13,382	15,860	2,376	18,217	20,593
Impaired	2,297	32,622	34,919	2,334	37,176	39,510
Total loans	24,168	185,196	209,364	24,549	192,880	217,429
Allowance for impairment loss	(1,200)	(14,474)	(15,674)	(1,161)	(15,018)	(16,179)
Total net loans	22,968	170,722	193,690	23,388	177,862	201,250

Past due but not impaired loans granted by the Group by past due term profile:

	30/06/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Past due up to 30 days	1,385	8,172	9,557	1,228	10,935	12,163
Past due 30 – 60 days	190	372	562	337	607	944
Past due 60 – 90 days	345	162	507	121	100	221
Past due over 90 days	557	4,677	5,234	690	6,575	7,265
Total gross loans	2,477	13,383	15,860	2,376	18,217	20,593

Movement in the Group's impairment allowance for loans:

	01/01/2017- 30/06/2017	01/01/2016- 30/06/2016
Provisions at the beginning of period	16,179	17,044
Impairment allowance increase	4,294	2,627
Impairment allowance decrease	(3,487)	(286)
Accrued interest (Note 3.)	(406)	(509)
Write-off of loans	(906)	(346)
Provisions at the end of period	15,674	18,530

As at 30 June 2017 the average annual interest rate of the Group's loan portfolio was 4.14% (at 31 December 2016: 4.16%).

If the *Risk coverage reserve used for provision* in amount 3,222 thsd euros is not used, the provisions for loan value impairment would amount to 18,711 thsd euros.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following derivative financial instruments: currency forwards representing commitments to purchase foreign and domestic currency, currency swaps representing commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies.

The notional contract values and fair values of derivative instruments are provided in the table below:

	30/06/2017			31/12/2016		
	Notional contract value	Fair value		Notional contract value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	11,944	105	-	12,330	-	854
Total		105	-		-	854

The contract is in force up to 6 December of 2017.

10. INVESTMENTS IN VENTURE CAPITAL FUNDS

	30/06/2017	31/12/2016
Carrying amount at the beginning of period	58,541	39,929
Invested	134	21,054
Refunded	(1,008)	(684)
Share of (loss) of investment in joint venture and associate	(693)	(1,758)
Carrying amount at the end of period	56,974	58,541
Impairment	(191)	(245)
Net value at the end of period	56,783	58,296

Movement in the Group's impairment allowance for venture capital funds:

	01/01/2017- 30/06/2017	01/01/2016- 30/06/2016
Provisions at the beginning of period	245	245
Impairment allowance decrease (Note 6.)*	(54)	-
Provisions at the end of period	191	245

* *Income from release of venture capital funds' provisions* in amount of 54 thsd euros were 100% compensated from the Risk Coverage Reserve pursuant to the agreement *On Implementation of the Holding Fund* concluded with the Ministry of Economics (agreement No Lġg.2011/15) (Note 18.).

11. INVESTMENT PROPERTY

	30/06/2017	31/12/2016
Carrying amount at the beginning of period	17,087	12,247
Acquired during the period*	3,150	3,704
Sold and written off during the period	(21)	(89)
Net gain from fair value adjustment	48	1,225
Carrying amount at the end of period	20,264	17,087

* Item *Acquired during the period* includes real estate objects purchased within the framework of *Land Fund*.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

12. ASSETS HELD FOR SALE

In June 2017, the Group successfully sold its only available-for-sale asset, i.e. office building, located 41/43 Elizabetes Street, Riga, with a profit of 3,872 thsd. euro (Note 4.).

13. DUE TO CREDIT INSTITUTIONS

	30/06/2017	31/12/2016
Due to credit institutions registered in:		
OECD countries	51,283	56,195
Total	51,283	56,195

Item *Credit institutions registered in OECD area* includes loans received by Group from the European Investment Bank (EIB) of 51,206 thsd euros, where 77 thsd euros are accrued interest expenses. In the reporting period the Group paid back 5,023 thsd euros of which the accrued interest amounted to 126 thsd euros.

The Ministry of Finance of the Republic of Latvia has issued a 51,206 thsd euros guarantee (Note 16) for the loan that is a parent guarantee on behalf of the Group.

As at 30 June 2017 the average interest rate for amounts due to credit institutions was 0.44% (at 31 December 2016: 0.33%).

14. DUE TO GENERAL GOVERNMENTS

	30/06/2017	31/12/2016
Due to government entities	1,723	1,723
Loans received from Rural Support Service	9,686	12,990
Loans received from the Treasury	32,201	32,201
Total due to general governments	43,610	46,914

15. SUPPORT PROGRAMME FUNDING AND STATE AID

	30/06/2017	31/12/2016
Support programme funding	96,486	96,822
State aid	5,088	6,849

During the reporting period, the Group has received additional funding for *Housing Guarantee Programme's* implementation in amount of 2,849 thsd euros.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

15. SUPPORT PROGRAMME FUNDING AND STATE AID (continued)

The table below presents Risk Coverage Reserve included in Support programme funding and State aid which can be used for coverage Group's credit risk losses as at 30 June 2017:

Programme	Programme funding, thsd EUR	Programme's loan portfolio thsd EUR	Credit risk cover by public funding, %	Credit risk cover on 31/12/2017, thsd EUR
ERDFII	25,619	10,881	66%	7,182
ESF II	9473	3,937	80%	3,149
Microcredits of Swiss programme	5,651	2,436	80%	1,949
ERAF I	1,470	1,730	50%	865
ESF I	1,008	213	90%	192
Microcredits	605	4	80%	3
ERAF II (second round)	5,519	4,695	68%	3,192
Incubators (from ESF II)	546	42	100%	546
ERAF II 2 Public fund	2,485	1,342	100%	1,342
Fund of funds and venture capital funds	20,765	-	49%	10,632
Fund of funds prog.- Start-up loans	979	2,986	82%	803
Fund of funds prog.- Microcredits	174	510	55%	96
Fund of funds prog.- Parallel loans	1,200	239	90%	1,080
Fund of funds prog.- Guarantees	6,581	-	91%	5,988
EEPMB* loan fond	2,512	-	18%	452
EEPMB guarantees	3,051	-	67%	2,044
EEPMB grants	-	265	0%	-
Housing Guarantee Programme	2,849	11,135	100%	2,849
Social Business Program	-	-	0%	-
Start Cumulative Loan Program	-	181	0%	-
KBLG**	5,000	-	95%	4,750
Other Start-up loans	2,196	2,088	0%	1,677
Mezzanine loan programme	4,986	-	85%	4,238
Investment Fund Activity	8,082	-	96%	7 759
Risk Coverage Reserve	110,751			60,788

* EEPMB – Energy Efficiency Programme for Multi-apartment Buildings

** KBLG – Guarantee Programme for Clients of State Aid Cumulation, Grace Period and Large Economic Operators.

The table below presents Risk Coverage Reserve included in Support programme funding and State aid which can be used for coverage Group's credit risk losses as at 31 December 2016:

Programme	Programme funding, thsd EUR	Programme's loan portfolio thsd EUR	Credit risk cover by public funding, %	Credit risk cover on 31/12/2016, thsd EUR
ERDFII	25,746	14,650	66%	9,669
ESF II	9,466	4,921	80%	3,937
Microcredits of Swiss programme	5,711	2,751	80%	2,201
ERAF I	1,470	1,944	50%	972
ESF I	987	234	90%	210
Microcredits	616	6	80%	5
ERAF II (second round)	5,051	5,420	68%	3,685
Incubators (from ESF II)	545	52	100%	545
ERAF II 2 Public fund	2,485	1,691	100%	1,691
Fund of funds and venture capital funds	24,207	-	49%	12,609
Fund of funds prog.- Start-up loans	625	-	82%	513
Fund of funds prog.- Microcredits	80	-	55%	44
Fund of funds prog.- Parallel loans	1,200	-	90%	1,080
Fund of funds prog.- Guarantees	3,522	-	91%	3,205
EEPMB loan fond	2,512	-	18%	452
EEPMB guarantees	3,051	-	67%	2,044
KBLG	5,000	-	95%	4,750
Other Start-up loans	2,481	2,365	0%	1,677
Mezzanine loan programme	5,322	-	85%	4,524
Investment Fund Activity	11,479	-	96%	11,020
Risk Coverage Reserve	111,556			64,833

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

16. OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES

	30/06/2017	31/12/2016
Contingent liabilities		
outstanding guarantees*	165,941	147,175
Financial commitments		
unutilised loan facilities	9,939	6,324
commitments to venture capital funds	28,856	28,940
other liabilities	131	142
Total	204,867	182,581

* According to the Law on State Budget 2017 the portfolio of *Outstanding guarantees* of 165,941 thsd euros is over-secured by the state funding of 200,000 thsd euros (At 31 December 2016: 100,247 thsd euros).

The table below allocates the Group's off balance sheet items and contingent liabilities to maturity groupings as at 30 June 2017 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	Total
Contingent liabilities							
outstanding guarantees	2,974	4,566	7,727	17,821	61,066	71,787	165,941
Financial commitments							
unutilised loan facilities	9,939	-	-	-	-	-	9,939
commitments to venture capital funds	814	1,404	2,107	4,014	18,308	2,209	28,856
other liabilities	-	-	-	-	-	131	131
Total financial commitments	10,753	1,404	2,107	4,014	18,308	2,340	38,926
Total	13,727	5,970	9,834	21,835	79,374	74,127	204,867

The table below allocates the Group's off balance sheet items and contingent liabilities to maturity groupings as at 31 December 2016 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	Total
Contingent liabilities							
outstanding guarantees	6,861	4,911	10,980	20,757	47,494	56,172	147,175
Financial commitments							
unutilised loan facilities	6,304	20	-	-	-	-	6,324
commitments to venture capital funds	149	571	1,846	4,325	19,368	2,681	28,940
other liabilities	-	-	-	-	-	142	142
Total financial commitments	6,453	591	1,846	4,325	19,368	2,823	35,406
Total	13,314	5,502	12,826	25,082	66,862	58,995	182,581

17. PROVISIONS

	30/06/2017	31/12/2016
Provisions for:		
Loan guarantees to rural entrepreneurs	704	827
Guarantees under the Mezzanine loan programme	1,246	402
Guarantee Programme (activity)	2,659	2,553
Housing Guarantee Programme	51	41
Other guarantee programmes	4,071	4,022
Provision (onerous contracts)	8,583	9,019
	17,314	16,864

If the *Risk coverage reserve used for provisions* in amount 1,599 thsd euros is not used, the provisions for guarantees, except provision of onerous contracts, would amount to 10,330 thsd euros.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

18. RESERVES

Movement of the Group's reserves:

	Specific reserves				
	Difference recognised in Group's reorganisati on reserve, thsd EUR	Portfolio loss reserve (specific reserve capital)*, thsd EUR	General reserve capital, thsd EUR	Reserve of available for sale investments, thsd EUR	Reserves, total, thsd EUR
Reserves as at 31/12/2015	(17,717)	1,635	-	8,625	(7,457)
Changes of reserve capital	5,472	-	-	-	5,472
Distribution of 2015 year profit	-	-	1,829	-	1,829
Increase of reserve capital	-	1,560	-	-	1,560
Increase of available for sale reserve (Note 19.)	-	-	-	666	666
Reserves as at 30/06/2016	(12,245)	3,195	1,829	9,291	2,070
Changes of reserve capital	(5,014)	-	-	-	(5,014)
Increase of reserve capital	-	4,000	-	-	4,000
Decrease of available for sale reserve	-	-	-	(199)	(199)
Reserves as at 31/12/2016	(17,259)	7,195	1,829	9,092	857
Changes of reserve capital	1,649	-	-	-	1,649
Distribution of 2016 year profit	-	-	4,025	-	4,025
Decrease of available for sale reserve (Note 19.)	-	-	-	(561)	(561)
Reserves as at 30/06/2017	(15,610)	7,195	5,854	8,531	5,970

* The position's name was changed from *Reserve capital for Housing Guarantee Programme* to *Portfolio loss reserve*

19. MOVEMENT IN REVALUATION RESERVE OF INVESTMENT SECURITIES AVAILABLE FOR SALE

	01/01/2017- 30/06/2017	01/01/2016- 30/06/2016
At the beginning of period	9,092	8,625
Profit / (loss) on fair value changes from	(561)	666
Other comprehensive income	(561)	666
Total	8,531	9,291

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

20. RELATED PARTY TRANSACTIONS

Related parties are defined as Council and Board members of the Group, their close relatives and companies under their control as well as companies of the Group over which the Group has significant influence.

In accordance with the International Accounting Standards (IAS) 24 *Related Party Disclosures* also the managing personnel, directly or indirectly authorised and responsible for planning, management and control of the Group's operations are treated as parties related to the Group.

The powers granted to the heads of the Group's structural units do not allow them to manage the operations of the Group and decide on material transactions that could affect the Group's operations and/or result in legal consequences.

In the reporting period the remuneration of the members of the Group's Council and Board amounted to 164 thsd euros.

The Group has entered into a number of transactions with other government entities. The most significant being obtaining funding from the Investment and Development Agency of Latvia, Ministry of Finance, Ministry of Economics, Rural Support Service and Central Finance and Contracting Agency that co-finances the development programmes of the Group.

The following table provides the total amount of transactions that have been entered into with related parties as at 30 June 2017 and 31 December 2016:

		Received support programme funding, thsd EUR	Granted support programme funding or paid back funding, thsd EUR	Received reserve capital, thsd EUR
Transactions with shareholders:				
Ministry of Finance	30/06/2017	-	(336)	-
	31/12/2016	-	-	5,559
Ministry of Economics	30/06/2017	2,849	(217)	-
	31/12/2016	29,610	-	-
Entity with significant influence:				
Investment funds	30/06/2017	420	-	-
	31/12/2016	283	-	-
Associates:				
Venture capital funds	30/06/2017	300	(516)	-
	31/12/2016	205	(22,932)	-
Other companies owned by Group shareholders:				
Rural Support Service	30/06/2017	-	-	-
	31/12/2016	-	(9,387)	-
Central Finance and Contracting Agency	30/06/2017	-	-	-
	31/12/2016	5,563	-	-

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

20. RELATED PARTY TRANSACTIONS (continued)

During the reporting period, the Group had no gains and expenses from transactions with related parties.

Balances, including off-balance sheet financial liabilities, with related parties as at 30 June 2017 and 31 December 2016:

		Entity with significant influence, thsd. EUR	Transactions with shareholders, thsd. EUR	Associates, thsd. EUR	Other companies owned by Group shareholders, thsd. EUR
Due from other credit institutions and Treasury	30/06/2017	224	-	-	-
	31/12/2016	34	-	-	-
Investment property	30/06/2017	12,266	-	-	-
	31/12/2016	11,273	-	-	-
Investments in venture capital funds – associates	30/06/2017	-	-	56,974	-
(Allowance for impairment loss)	30/06/2017	-	-	(191)	-
	31/12/2016	-	-	58,541	-
	31/12/2016	-	-	(245)	-
Other assets	30/06/2017	139	-	-	-
	31/12/2016	140	-	-	-
Due to general governments	30/06/2017	-	-	-	9,686
	31/12/2016	-	-	-	12,990
Support programme funding and state aid	30/06/2017	-	96,011	-	5,563
	31/12/2016	-	98,108	-	5,563
Commitments to venture capital funds	30/06/2017	-	-	28,856	-
	31/12/2016	-	-	28,940	-

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

21. MAXIMUM EXPOSURE TO CREDIT RISK

The credit risk is a risk that a customer or cooperation partner of the Group is unable or unwilling to meet its liabilities towards the Group in full and within the established term.

The table below shows credit risk exposures of the balance and off-balance sheet items (before collateral held or other credit security):

	30/06/2017	31/12/2016
Statement of financial position assets exposed to credit risk		
Investment securities – held to maturity	467	1,531
Investment securities - available for sale	62,453	64,294
Due from other credit institutions and Treasury	94,501	89,553
Loans and receivables	193,690	201,250
Investments in venture capital funds	56,783	58,296
Other assets	1,113	901
Total	409,007	415,825
Off-balance sheet items exposed to credit risk		
Contingent liabilities (Note 16.)	165,941	147,175
Financial commitments (Note 16.)	38,926	35,406
Total	204,867	182,581

As at December 31, 2015 a part of the Group's assets were pledged. On June 16, 2015 the commercial pledge stemming from the loan agreement No A1/F12/296 and its amendments concluded between the Group and Ministry of Finance of the Republic of Latvia was renewed. The commercial pledge is related to the loans granted by Group in compliance with the Cabinet of Ministers Regulations No 381 dated May 29, 2012 *Procedure for Granting State Aid when Acquiring Farmland for Agricultural Production* as well as future components of the aggregation of property. The claim amount is 32,201 thsd euros (2016: 32,201 thsd euros).

Based on the loan agreement No A1/F16/474 dated 24 November 2016 between the Group and Treasury of the Republic of Latvia a commercial pledge agreement was concluded on the same date. The commercial pledge refers to the loan funds the Group received from the Treasury and used to grant loans according to the Cabinet Regulation No 469 dated 15 July 2016 On Parallel Loans for Improvement of Competitiveness of Businesses.

The maximum secured claim amount is 24,000 thsd euros. The composition of the commercial pledge: claim rights and their future components resulting from the aforementioned loans the Group has granted. In the first six months of year 2017 the Group had not started to use the Treasury's loan as yet.

During year 2017 the Group is planning to grant loans in the amount of 4,700 thsd euros, while in the period from 2017 till 2021 - in the amount of 15,000 thsd euros.

On 29 December 2016 a commercial pledge agreement was concluded based on the following two loan agreements: loan agreement No A1/1/15/698 dated 18 December 2015 and loan agreement No A1/1/16/395 dated 26 September 2016.

The loan agreement No A1/1/15/698 dated 18 December 2015 was concluded between the Group and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Group received from the Treasury and used to grant loans according to the Cabinet Regulation No 1065 dated 15 September 2009 On Loans for Promoting the Development of Micro, Small and Medium Sized Merchants and Agricultural Service Co-operative Societies.

The loan agreement No A1/1/16/395 dated 26 September 2016 was concluded between the Group and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Group received from the Treasury and used to grant loans according to the Cabinet Regulation No 328 dated 31 May 2016 On Micro Loans and Start-up Loans.

The total maximum secured claim amount is 39,600 thsd euros. The composition of the commercial pledge: claim rights and their future components resulting from the aforementioned loans the Group has granted. In the first six months of year 2017 the Group had not started to use the Treasury's loan as yet. During year 2017 the Group is planning to grant loans in the amount of 15,000 thsd euros, while in the period from 2017 till 2021 - in the amount of 18,000 thsd euros.

Transactions with derivatives that were in effect as at 30 June 2017, had been concluded seeking to cushion the effect of exchange rate fluctuations on the value of balance-sheet assets (see Note 9.).

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

21. MAXIMUM EXPOSURE TO CREDIT RISK (continued)

None of the financial assets, except for *Loans to customers*, have been collateralised. Loans are mostly secured by real estate collateral, to a lesser extent – by other assets or commercial pledge. Some loans, granted during lending campaigns, are partially covered by guarantees of state aid programmes. Loan loss impairment estimates take into account the expected cash flows from collateral. Loan quality is described in Note 8.

As at 30 June 2017 the total amount of Group's entitlements considered as an aggregate property in favour of the Ministry of Finance was 51,206 thsd euros (2016: 56,111 thsd euros) (Note 13.).

The counter-guarantees of the Treasury are available for the following guarantee programmes:

- under the Funding Covenant concluded with the Central Finance and Contracting Agency (contract dated 08/06/2016) on implementation of the fund of funds the guarantees are available under specific support objective 3.1.1.1 with the earmarked funding of 15 mln euros.
- funding of 6 mln euros is earmarked for the state aid combination guarantees for the small and medium-sized enterprises sourced from repayments made on sub-activity 2.2.1.4.1. *Support in the Form of Loan for Improvement of Competitiveness of Businesses*; as regards the guarantees for large companies – the funding of 675 thsd euros is available from activity 3.1.3. *Training and Consultations for Business and Self-employment Start-ups* as well as reflows from activity 1.3.1.2. *Support to Self-employment and Business Start-ups* under operational programme *Human Resources and Employment* (482 thsd euros);
- Loan guarantees of 4,3 mln euros are available to the farmers;
- As of 8 June 2016 the loan guarantees are issued under specific support objective 3.1.1.1. As at 30 June 2017, 155 guarantees with the total funding of 27,5 mln euros were issued under specific support objective 3.1.1.1., whereas 12 guarantees with the total funding of 3,8 mln euros were issued to large companies. From 1 January 2017 to 30 June 2017 there were 24 guarantees with the total funding of 2,7 mln euros issued to farmers.
- *InnovFIN* Facility guarantees are available to the innovative companies complying with the conditions of specific support objective 3.1.1.1. as well as large companies. There is an agreement (dated 13/10/2016) concluded with the European Investment Fund on *InnovFIN* Facility counter-guarantees for 30 mln euros. As of conclusion of the agreement up to 30 June 2017 there were 7 guarantees issued with *InnovFin* counter guarantee with the total funding of 1,5 mln euros.
- The guarantees of the Energy Efficiency Programme of Multi-apartment Buildings (EEPMB) are issued within the framework of the specific objective's measure 4.2.1.1. To Increase Energy Efficiency in Residential Buildings. The funding of 12,2 mln euros is earmarked for EEPMB guarantees. As at 30 June 2017 there were 2 EEPMB guarantees granted for 206 thsd euros.
- The housing guarantees to the families with underage children are issued based on the Cabinet of Ministers Regulation No 443 *On State Assistance to Acquisition or Construction of Living Accommodation* adopted on 5 August 2014. The Housing Guarantee Programme has been running since January, 2015 with 7 co-operating commercial banks involved in its implementation. As at 30 June 2017 the Housing Guarantee Programme had granted a total of 38,8 mln euros in housing guarantees to 5,771 families with children.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

22. FAIR VALUES OF ASSETS AND LIABILITIES

In the opinion of Management, the fair value of assets and liabilities held in the Group's balance sheet at amounts other than fair value differs from their carrying values and those booked at fair value, as follows:

	30/06/2017		31/12/2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Due from other credit institutions and Treasury	94,501	94,505	89,553	89,537
Debt securities	62,453	62,453	64,294	64,294
Investment securities - available for sale	62,453	62,453	64,294	64,294
Individuals	22,362	22,313	22,722	22,684
Companies	171,328	170,497	178,528	177,644
Loans and receivables	193,690	192,810	201,250	200,328
Debt securities	467	1,272	1,531	3,315
Investment securities – held to maturity	467	1,272	1,531	3,315
Derivatives	105	105	-	-
Investments in venture capital funds	56,783	56,783	58,296	58,296
Investment property	20,264	20,264	17,087	17,087
Assets held for sale	-	-	1,367	3,488
<u>Liabilities</u>				
Due to credit institutions	51,283	51,283	56,195	56,195
Derivatives	-	-	854	854
Due to general governments	43,610	43,610	46,914	46,914
Support program funding, net of state aid	96,486	96,486	96,822	96,822

Assets

Fair value of securities has been estimated based on quoted market prices where available. In assessing the fair value for other financial assets, the management has performed discounted cash flow analysis, estimating cash flows upon assumptions based on the most up-to-date market information at the moment of assessment. For loans having fixed rates in fixed terms, the management has conducted discounted cash flow analysis, while for loans where the base interest rates are pegged to floating market interest rates, the Group has assumed that the carrying value of such loans equals their fair value.

Liabilities

Fair value of financial liabilities at amortised cost, such as *Due to credit institutions*, has been estimated based on discounted cash flow model using interest rates for similar products as at year-end. Fair value of those financial liabilities that are on demand or have floating interest rate (e.g. *Due to credit institutions*) has been estimated to be approximately equal to its carrying amount.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

22. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

The following table shows the hierarchy of the Group's financial assets and liabilities assessed and recognised at fair value as at 30 June 2017:

	Level 1	Level 2	Level 3	Total
<u>Assets measured at fair value:</u>				
Investment property (Note 11.)	-	-	20,264	20,264
Debt securities - available for sale	37,838	24,615	-	62,453
<u>Assets for which fair values are disclosed:</u>				
Loans and receivables (Note 8.)	-	-	193,690	193,690
Derivatives (Note 9.)	-	105	-	105
Due from other credit institutions and Treasury (Note 7.)	89,395	-	5,110	94,505
Total	127,233	24,720	219,064	371,017

Liabilities measured at fair value:

Liabilities for which fair values are disclosed:

Due to credit institutions (Note 13.)	-	-	51,283	51,283
Due to general governments (Note 14.)	-	-	43,610	43,610
Support program funding, net of state aid (Note 15.)	-	-	96,486	96,486
Total	-	-	191,379	191,379

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

22. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

The following table shows the hierarchy of the Group's financial assets and liabilities assessed and recognised at fair value as at 31 December 2016:

	Level 1	Level 2	Level 3	Total
<u>Assets measured at fair value:</u>				
Investment property (Note 11.)	-	-	17,087	17,087
Debt securities - available for sale	39,026	25,268	-	64,294
<u>Assets for which fair values are disclosed:</u>				
Loans and receivables (Note 8.)	-	-	200,328	200,328
Due from other credit institutions and Treasury (Note 7.)	79,437	-	10,100	89,537
Total	118,463	25,268	227,515	371,246
<u>Liabilities measured at fair value:</u>				
Derivatives (Note 9.)	-	854	-	854
<u>Liabilities for which fair values are disclosed:</u>				
Due to credit institutions (Note 13.)	-	-	56,195	56,195
Due to general governments (Note 14.)	-	-	46,914	46,914
Support program funding, net of state aid (Note 15.)	-	-	96,822	96,822
Total	-	854	199,931	200,785

Fair value hierarchy of financial assets and liabilities

The Group classifies the fair value measurements based on the fair value hierarchy, which reflects significance of the data used in measurement. The fair value hierarchy of the Group has 3 levels:

- *Level 1* includes *Due from other credit institutions and the Treasury* as well as listed financial instruments having an active market, if the Group, to determine their fair value, uses unadjusted quoted market prices, obtained from the stock-exchange or reliable information systems;
- *Level 2* includes financial instruments traded over the counter and financial instruments having no active market or declining active market whose fair value measurements are based mostly on observable market inputs (e.g., similar instruments, benchmark financial instruments, credit risk insurance transaction rates, a.o.);
- *Level 3* includes financial instruments whose fair value measurements rely on observable market inputs requiring significant adjustment due to the unobservable market inputs, and financial instruments whose fair value measurements are based primarily on the data that cannot be observed in the active market and assumptions and estimates of the Group that enable a credible measurement of the financial instrument's value.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

22. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Debt securities

The debt securities are measured using the quoted prices or valuation techniques using both - observable and unobservable market inputs and a combination of the two. The majority of investments in debt securities recognised at fair value are investments in Latvian government debt securities having a quoted price, but not being traded on the active market. The management has estimated that the quoted price is a reasonable approximation of the fair value by reference to yield of similar risk investments.

Derivatives

The derivatives measured using valuation techniques relying on observable market inputs are mainly currency swaps and over-the-counter forward exchange contracts. Most frequently applied valuation techniques include discounted cash flow calculation, where inputs include foreign exchange spot and forward rates as well as interest rate curves.

Equity investments in subsidiaries

The investments in the shares of the investment funds are values that are based on net redemption price as the investments are made in investment funds.

Investment property

Investments in real estate are evaluated in accordance with Latvian and International Valuation Standards (IVS) for real estate involving an independent and professional committee of experts.

Property investments are evaluated at their fair value using one of the following approaches:

- (a) market data (comparable sales) approach;
- (b) income approach;
- (c) depreciated replacement cost method.

The valuation method is selected depending on the type of property and acquisition purpose. Property valuation is carried out by a professional and certified valuator, selected by the Group, according to the abovementioned methods.

23. LIQUIDITY RISK

The table below provides the maturity structure of expected undiscounted future cash flows of the Group's financial liabilities, off-balance liabilities and liquid assets, including the balances of *Due from other credit institutions and Treasury* and *Investment securities* as at 30 June 2017. The presentation is based on the expected future cash flows linked with payment schedules and includes interest; while the maturity analysis presented in Note 25. discloses the term structure of actual balances of liabilities and assets:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to credit institutions	8,887	35,243	7,905	52,035
Due to general governments	41	653	49,111	49,805
Support programme funding, net of state aid	-	-	96,486	96,486
Other liabilities	-	-	6,521	6,521
Total financial liabilities	8,928	35,896	160,023	204,847
Off-balance items and contingent liabilities (Note 16.)	43,026	71,055	90,786	204,867
Total financial liabilities, off-balance items and contingent liabilities	51,954	106,951	250,809	409,714
Due from other credit institutions and Treasury	94,501	-	-	94,501
Investment securities	487	48,801	13 632	62,920
Liquid assets	94,988	48,801	13,632	157,421

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

23. LIQUIDITY RISK (continued)

The table below provides the maturity structure of expected undiscounted future cash flows of the Group's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2016:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to credit institutions	9,483	35,368	12,293	57,144
Due to general governments	163	653	50,017	50,833
Support programme funding, net of state aid	-	-	96,822	96,822
Other liabilities	-	-	6,559	6,559
Total financial liabilities	9,646	36,021	165,691	211,358
Off-balance items and contingent liabilities (Note 16.)	63,019	56,967	75,782	195,768
Total financial liabilities, off-balance items and contingent liabilities	72,665	92,988	241,473	407,126
Due from other credit institutions and Treasury	89,553	-	-	89,553
Investment securities	11,403	39,800	14,622	65,825
Liquid assets	100,956	39,800	14,622	155,378

24. CASH AND CASH EQUIVALENTS

	30/06/2017	30/06/2016
Demand deposits with other credit institutions	81,304	29,634
Deposits with credit institutions with original maturity of less than 1 month	8,192	14,786
	89,496	44,420

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below discloses assets and liabilities according to their contractual maturity. With regard to loans and advances to customers, the Group uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. The issued debts reflect the contractual coupon amortisations.

The table below allocates the Group's assets and liabilities to maturity groupings as at 30 June 2017 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	Total
ASSETS							
Due from other credit institutions and Treasury	89,501	-	5,000	-	-	-	94,501
Investment securities	-	-	-	487	48,801	13,632	62,920
Loans and receivables	9,496	6,021	12,955	23,222	82,054	59,942	193,690
Derivatives	-	-	105	-	-	-	105
Investments in venture capital funds	-	867	-	-	50,473	5,443	56,783
Deferred expense and accrued income	104	2,510	5	4	10	4	2,637
Investment property	-	-	-	12,266	7,998	-	20,264
Property, plant and equipment	-	-	-	-	-	3,474	3,474
Intangible assets	-	-	-	-	-	550	550
Other assets	515	-	-	141	2 852	457	3 965
Assets held for sale	-	-	-	-	-	-	-
Total assets	99,616	9,398	18,065	36,120	192,188	83,502	438,889
LIABILITIES							
Due to credit institutions	-	4,331	77	4,340	34,722	7,813	51,283
Due to general governments	1,723	-	-	-	-	41,887	43,610
Deferred income and accrued expense	301	20	180	354	157	979	1,991
Support programme funding and state aid	858	-	-	-	39,802	60,914	101,574
Provisions for off-balance sheet commitments	626	451	81	2,538	5,225	8,393	17,314
Other liabilities	3,470	-	376	-	291	2,384	6,521
Total liabilities	6,978	4,802	714	7,232	80,197	122,370	222,293
Net liquidity	92,638	4,596	17,351	28,888	111,991	(38,868)	216,596

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS OF GROUP

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's assets and liabilities to maturity groupings as at 31 December 2016 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	Total
ASSETS							
Due from other credit institutions and Treasury	79,553	5,000	-	5,000	-	-	89,553
Investment securities	-	-	1,027	-	50,176	14,622	65,825
Loans and receivables	14,369	9,473	8,997	19,313	91,132	57,966	201,250
Investments in venture capital funds	-	799	-	-	51,894	5,603	58,296
Deferred expense and accrued income	410	1,640	4	1	4	-	2,059
Investment property	-	-	-	12,218	-	4,869	17,087
Property, plant and equipment	-	-	-	-	-	3,507	3,507
Intangible assets	-	-	-	-	-	168	168
Deferred tax asset	-	-	-	-	-	-	-
Other assets	735	-	-	1	3,113	165	4,014
Assets held for sale	-	-	-	1,367	-	-	1,367
Total assets	95,067	16,912	10,028	37,900	196,319	86,900	443,126
LIABILITIES							
Due to credit institutions	-	4,896	93	4,340	34,717	12,149	56,195
Derivatives	-	854	-	-	-	-	854
Due to general governments	1,723	-	-	-	-	45,191	46,914
Deferred income and accrued expense	160	17	464	427	201	706	1,975
Support programme funding	6,182	-	-	2,098	36,995	58 396	103,671
Provisions for off-balance sheet commitments	2,509	1,195	970	31	6,591	5,568	16,864
Other liabilities	3,686	-	376	174	292	2,031	6,559
Total liabilities	14,260	6,962	1,903	7,070	78,796	124,041	233,032
Net liquidity	80,807	9,950	8,125	30,830	117,523	(37,141)	210,094

26. SUBSEQUENT EVENTS

Moody's Investors Service has assigned to joint stock company Development Finance Institution Altum (parent company of the Group) an investment grade rating Baa1 with a stable outlook. The assigned rating is among the highest ratings ever assigned to the capital companies of Latvia. The rating was assigned on 15 June 2017.

There are no other subsequent events from the last day of the reporting year until signature of this report, which would have a significant effect on the financial position of the Group.